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FROM DEPENDENCE TO GLOBAL INTEGRATION FOR DEVELOPMENT
A CASE STUDY OF VIETNAM – FROM 1975 TO PRESENT

A Thesis Presented to
Josef Korbel School of International Studies
University of Denver

In Partial Fulfillment
of the Requirements for the Degree
Master of Arts

by
Dang, Thanh Phong
June 2009

Advisor: Professor Edward Thomas Rowe

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ABSTRACT

This study examines the process of Vietnam's global integration for development in order to conclude that Vietnam has been able to achieve economic development and human development by joining regional and global institutions and working closely with multilateral international development agencies.

With proper literature reviews of economic theories and empirical studies, this study determines that Vietnam was able to graduate from dependence on the former Soviet Union and achieved economic development and human development.

This study determines that Vietnam has become one of the best-performing developing economies in the world. The Vietnamese people's standard of living has improved significantly. The World Bank estimates that within 10 years, from 1993 to 2004, Vietnam lifted 30 million people out of poverty.

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Map of Vietnam



Chapter 1 – Introduction, Objectives, and Methodology

1.1. Introduction

Today, the global integration of Vietnam has been considered a success story, particularly with its characteristics of a communist country. The process of global integration is seen from the country's significant improvements to engage the world by graduating from the status of dependence on the former Union of Socialist Soviet Republics (U.S.S.R), shifting its ideological directions, and by making very crucial steps into regional and global organizations. The time frame to illustrate the process of Vietnam's global integration is set from the country's reunification from the Vietnam War in April 1975 to present. Officially, the reunification of the country was set in October 1976. After this, the Vietnamese leadership expected to develop Vietnam into prosperity by adapting a socialism-based economy. However, it failed to achieve both economic development as well as human development in the evidences of internal and external factors.

Internally, the export turnover from 1976 to 1985 compensated for only a third of the import turnover and gross foreign trade turnover was very low, averaging only US\$ 1.7 billion per year. The quality of life was poor and getting worse. Daily necessities such as food, consumer goods, transport, and health and education facilities were seriously deficient. Meanwhile, rampant inflation reduced the value of salaries and real incomes. Overspending of the state budget increased sharply and went from 25 percent to 45 percent of revenues in the years after reunification¹. Particularly, the Communist Party of

¹ Bui Tat Thang, *After the War: 25 Years of Economic Development in Vietnam*, , available from <http://www.nira.or.jp/past/publ/review/2000spring/06thang.pdf> , p. 22.

Vietnam, as soon as it established its nation-wide control, was very much eager to collectivize the capitalist South as part of the whole strategy for transition to socialism. However, collectives were doing badly. The attempt to extend them to the rural South was resisted so violently that it had to be called off. The truth was, the people were exhausted. Most families on both sides, North and South, had lost their loved ones in the decades of fighting. Those individuals who survived were physically impoverished by the wars' demands and psychologically drained by the relentless drives for national mobilization. The entire productivity was breaking down. Absolute poverty was widespread².

In addition, the external factors were completely unfavorable for Vietnam to have more export and import exchanges with countries other than the Soviet (Eastern) Bloc as a consequence of U.S. economic sanctions against Vietnam after the fall of the U.S.-backed Government of South Vietnam. This had led to the country's economic and diplomatic isolation from Western countries. While making every possible effort to recover from the protracted war with huge human and material damage, roughly 2 million people from the Vietnam side and 50,000 (fifty thousand) U.S. soldiers and US\$ 3.25 billion, Vietnam was faced with tough challenges for development since the national reunification. As a result, Vietnam remained economically backward and diplomatically. In the midst of the "East Asian Miracle," a combination of Western sanctions and economic mismanagement led per capita national income to fall by over 7 percent between 1978 and 1980 and to grow only slowly thereafter. Near total isolation from the West imposed major

² James W. Morley and Masashi Nishihara, Editors, *Vietnam Joins the World*, M.E. Sharpe, Inc. 1997, p. 4 Overview.

obstacles to direct investment and market access that enabled other Southeast Asian countries like Indonesia, Malaysia, and Thailand to achieve rapid export-led growth. Also, the military intervention of Kampuchea (Cambodia) not only precipitated Western disengagement, but also triggered an escalation in tensions with China, which supported the ousted regime of Pol Pot³. China's response to the Vietnamese military intervention was to step up military operations along Vietnam's northern border. Military pressure from the north forced Hanoi to rely more heavily on the Soviet Union, which provided Hanoi with economic assistance on the order of \$3 billion a year and facilitated a trading relationship with other communist countries in the Eastern Bloc. But Soviet financial assistance and a paltry trade with other communist states could not rectify the fundamental weaknesses in Vietnam's economy. Parts of the country endured severe food shortages, and imported Soviet capital failed to establish a productive industrial base to support the economy. As Moscow's own economic troubles mounted in the 1980s, support from the Soviet Union began to dry up⁴.

Under these internal and external circumstances, Vietnam decided to make radical reforms, a part of which was to join the world for economic development and human development. The stages of Vietnam's development path include the following: (1) the status of dependence on U.S.S.R in military, economy, diplomacy, and education; (2) the transition in foreign policy for outside engagement; (3) the settlement of Vietnam's military intervention of Kampuchea and the normalization of relations with People's

³ Saloth Sar or Minh Hai, (May 19, 1928 – April 15, 1998), widely known as Pol Pot, was the leader of the Cambodian communist movement known as the Khmer Rouge and was Prime Minister of Democratic Kampuchea from 1976–1979. Source: http://en.wikipedia.org/wiki/Pol_pot

⁴ Oliver Babson, Diplomacy of Isolation: United States Unilateral Sanctions Policy and Vietnam 1975 – 1995, available from <http://www.princeton.edu/research/cases/sanctions.pdf>, p.6

Republic of China as well as the normalization of relations with the United States of America; and (4) the Vietnamese process of integrating into regional and global organizations for economic development, i.e. trade liberalization and foreign direct investment, and for human development, i.e. poverty reduction, education development, and health development as identified and targeted within the framework of the Millennium Development Goals (MDGs) introduced by the United Nations Millennium Declaration of September 2002.

1.2. Objectives

- To analyze how Vietnam, a communist country, has been able to achieve economic development and human development; and
- To use Vietnam as a case study of development success emerging from dependence.

1.3. Methodology and Literature Reviews

The methodology used to prepare this thesis consisted of the four elements: (1) collection of secondary data, tables, figures, and indicators from documents published by World Bank, International Monetary Fund, United Nations Development Programme, and other sources of references for economic development and human development; (2) description of the developments of policies applied by Vietnam from different periods of time; (3) presentation of some challenges faced by Vietnam during the current and future process of global integration; and (4) conclusions and recommendations. Literature reviews, theories of economic development and human development, will be applied along the lines of this thesis where appropriate.

Chapter 2 - The Dependent Period from 1975 to 1986 (Dependence on U.S.S.R)

Soviet-Vietnamese ties were indeed closer than they had ever been at the time of the communist victory in Indochina in April 1975. Soviet assistance had been instrumental in enabling Hanoi (North Vietnam) to complete its victory in the south of Vietnam after the 1973 Paris Peace Accords⁵ with the United States. Moreover, Vietnam's traditional distrust of China increased as the rapprochement between China and the United States evolved. Hanoi's border disputes with both the People's Republic of China and Cambodia and its conflict with the former over the Paracel⁶ and Spratly⁷ island groups in the South China Sea alienated Hanoi further from China. Vietnam had essentially nowhere to turn but to the Soviet for military aid (China's was halted with the end of the war) and economic assistance, and as a way out of its diplomatic isolation⁸.

In theory, there are different mechanisms of dependence. Most theorist would agree that a less developed country (LDC) can be considered externally dependent to the extent that some or all of these are true: (1)it is host to foreign direct investment; (2) its economy is strongly oriented to external trade; (3) it receives a large amount of foreign economic assistance; (4) it devotes considerable resources to the servicing of foreign

⁵ The Paris Peace Accords of 1973, intended to establish peace in Vietnam and an end to the Vietnam Conflict, ended direct U.S. military involvement and temporarily stopped the fighting between north and south. The governments of the Democratic Republic of Vietnam (North Vietnam), the Republic of Vietnam (South Vietnam), and the United States, as well as the Provisional Revolutionary Government (PRG) that represented indigenous South Vietnamese revolutionaries signed the Agreement on Ending the War and Restoring Peace in Vietnam on January 27, 1973. Source: http://en.wikipedia.org/wiki/Paris_Peace_Accords.

⁶ The Paracel Islands consist of over 30 islets, sandbanks or reefs, occupy about 15,000 km² of the ocean surface, and located in the South China Sea, also known as East Vietnam Sea or East Sea, available at: http://en.wikipedia.org/wiki/Paracel_Islands.

⁷ The Spratly Islands are a group of more than 650 reefs, islets, atolls, cays and islands in the South China Sea between the Philippines and Vietnam, available at http://en.wikipedia.org/wiki/Spratly_Islands.

⁸ Robert C. Horn, *Alliance Politics Between Comrades: The Dynamics of Soviet – Vietnamese Relations*, RAND/UCLA Center for the Study of Soviet International Behavior, 1987, p.8

debts; (5) it trains a large proportion of its university students in a relatively few advanced countries; and (6) it maintains close military ties with more advanced nations and devotes considerable resources to the purchase of arms abroad⁹. In practice, some of the features were particularly true for the case of Vietnam's dependence on the former U.S.S.R.

2.1 Military Dependence

The U.S.S.R. had a very important role to play in providing military assistance for Democratic Republic of Vietnam, or North Vietnam in short, to win the Vietnam War. By estimation, the U.S.S.R supplied about 75% of North Vietnam's military hardware compared to 15% from China (mainland) and East Europe about 10%. After the war, Vietnam remained dependent on military assistance from the U.S.S.R as viewed by the Vietnamese to defend the country from potential threats with the Kampuchea War (1977 – 1978) and the Sino-Vietnam War (1979) and to preserve the revolutionary achievements from the Vietnam War. This was also viewed by the U.S.S.R. to use the Vietnamese territory for Soviet forward-deployment air and naval bases from Vladivostok (2,220 miles or 10 days by steamer – from Cam Ranh Base in the middle part of Vietnam) to the Indian Ocean. Though the Soviet military assistance to Vietnam was not increasing so much between 1976 and 1977, it began to soar thereafter, especially at a time when Vietnam was fighting with Kampuchea and China for border conflicts, as illustrated in the following table:

⁹ Vincent A. Mahler, *“Dependency Approaches to International Political Economy – A Cross-National Study”*, Columbia University Press New York 1980.

Table 1 Military Aid from the U.S.S.R to Vietnam

Year	Amount		Year	Amount
1976	\$44.7 million		1977	\$80 million
1978	\$700 million		1979	\$890 million
1980	\$790 million		1981	\$450 million
1982	\$900 million		1983	\$1.2 billion
1984	\$1.3 billion		1985	\$1.7 billion

Source: Vietnam and The Soviet Union – Anatomy of an Alliance by Douglas Pike – Westview Press, Boulder and London 1987

As part of the articles of the U.S.S.R – Vietnam Friendship and Cooperation Treaty signed in 1978 by Hanoi top official delegation led by Le Duan¹⁰, then Party Chief of Vietnam during their visit to Moscow, for example, 20 MIG-24 swept-wing fighter planes made their ways to Hanoi. Later this year, a Soviet military mission was established, and Soviet military advisers and military assistance started to be present in quantity in Vietnam. The tonnage of delivered military aid doubled each year from 1977 through 1980 and then leveled off in reflection of Vietnam's fight against the Pol Pot regime in Kampuchea (December 1978) and with China in the border conflict (February 1979). Undoubtedly, Vietnam was heavily dependent on the U.S.S.R military assistance in all branches with priority given to air defenses, including the stationing of MIG-23 swing-wing interceptors and augmentation of the missile defenses in major cities such as Hai Phong, Huong Khe, Vinh, Da Nang, Nha Trang, and Bien Hoa. The U.S.S.R military aid to Vietnam was also in quality. The People's Army of Vietnam, PAVN, received the

¹⁰ Lê Duẩn (b. April 7, 1907 - d. July 10, 1986) was a Vietnamese communist leader. He became North Vietnam's acting party chief in late 1956. By 1958, he was the country's top policy maker, although nominally number two behind figurehead Hồ Chí Minh. He officially became the top leader when Hồ died in 1969. After that, Duẩn assumed formal leadership of North Vietnam's government. After the communist takeover of South Vietnam in 1975, Duẩn became leader of a unified Vietnamese state. He approved a Vietnamese invasion of Cambodia late in 1978 to overthrow the Chinese-backed Khmer Rouge government of that country. Source: http://en.wikipedia.org/wiki/Le_Duan.

most advanced type of missile attack patrol boats from the Soviet Navy, namely the OSA Class II (240 tons, 40 meters in length, carrying four SSN-2 STYX surface-to-surface missiles). The military condition of Vietnam's dependence on the U.S.S.R could be assessed by the Soviet Embassy Air-Naval Attache Colonel Davydov that "the Soviet Union and its armed forces have provided and will provide SRV (Socialist Republic of Vietnam) with all the necessary assistance for consolidating the SRV's defense capability". In addition to military aid, Vietnam was also heavily dependent on the U.S.S.R economically.

2.2. Economic Dependence

From September to December 1975, then Party Chief Le Duan headed a team of foreign aid experts on a trip to the U.S.S.R and seven other communist countries. In Moscow, he signed two agreements. The one signed on October 30, 1975 was for long-term loans with credit under highly favorable term (10 years). This agreement aimed at rationalizing and modernizing the agricultural sector, developing key industrial sectors such as primarily electric power, mining, chemistry and tool manufacture, and supplying oil, grain, raw cotton and other commodities. The other signed on December 18, 1975 was for economic aid and technical assistance. It covered some forty major projects in electric power, food industry, production of building materials and geological surveys. Both of the two agreements were in support of the second Five-Year Plan (1976 – 1980) of Vietnam. The estimated cost was \$ 3-4 billion to which the U.S.S.R agreed to fund 60%, roughly at \$1.2 billion in addition to \$700 million in commodity aid available during the same period. The year 1978 witnessed the beginning of the changed

relationship between Vietnam and the U.S.S.R. Vietnam signed more than a dozen economic aid and other agreements with the U.S.S.R. On June 29, 1978, Vietnam was admitted as the tenth member of the Communist Common Market System at the Prime Minister's Meeting of the Council for Mutual Economic Assistance (CMEA)¹¹ in Bucharest. Later this year in November, Le Duan and a large delegation of top Hanoi officials visited Moscow to sign a series of agreements related to security, economic and military aid, trade, and science and technology. However, the continuing inability of the Hanoi's leadership to solve the country's basic economic problems and its two wars as indicated above did deepen the Vietnamese economic dependence on the U.S.S.R. Under the mechanism of CMEA, the U.S.S.R provided Vietnam with 70% of all its imports in a total of \$12 billion worth in 1979, accounting for 94% of its raw cotton, 90% of its oil, steel, and fertilizer, and 70% of its imported grain (3 million tons). The Vietnamese economic dependence on the U.S.S.R was also seen from the U.S.S.R project aid. From 1975 to January 1985, the majority of about 950 projects - electric power, mining, oil and gas, manufacturing and industrial areas, transportation and communication, and agriculture – had been launched. Among them were 200 major projects which had been put into operation with financial and technical assistance from the U.S.S.R. The table below indicates how deep the Vietnamese economic dependence was on the U.S.S.R.

¹¹ The Council for Mutual Economic Assistance (Russian: Совет экономической взаимопомощи, *Sovet ekonomicheskoy vsaymopomoshchi*, СЭВ, *SEV*, English abbreviation COMECON, CMEA, or CAME), 1949–1991, was an economic organization of communist states and a kind of Eastern Bloc equivalent to—but more geographically inclusive than—the European Economic Community. The military equivalent to the Comecon was the Warsaw Pact, though Comecon's membership was significantly wider. The Comecon was the Eastern Bloc's reply to the formation of the OEEC (Organization of European Economic Co-operation). Source: <http://en.wikipedia.org/wiki/COMECON>

Table 2 Economic Aid from the U.S.S.R. to Vietnam

Year	Amount		Year	Amount
1976	\$ 560 -750 million		1977	\$570 million – \$1 billion
1978	\$700 million - \$1 billion		1979	\$800 million - \$1.1 billion
1980	\$2.9 – 3.2 billion		1981	\$0.9 billion
1982	\$1.18 billion		1983	\$1.3 billion
1984	\$1.4 billion		1985	\$1.6 billion

Source : Vietnam and The Soviet Union – Anatomy of an Alliance by Douglas Pike – Westview Press, Boulder and London 1987

2.3. Diplomatic Dependence

The Soviet diplomats supported and defended Vietnam's military intervention in Kampuchea at the United Nations and other international gatherings. The U.S.S.R vetoed a UN Security Council resolution, sponsored by the members of the Association of South East Nations (ASEAN), requesting withdrawal of foreign troops from Indochinese countries. In addition, Moscow supported Ha Noi for the issue of refugees (boat people), which emerged after the Vietnam War. The Indochinese exodus was one of the great migrations in modern history involving more than 1 million people. However, Moscow treated it as a non-problem as illustrated by the Soviet attitude towards an incident with fleeing refugees and a Norwegian aid project in 1980. The incident had it that Norway donated a sophisticated fishing trawler to Vietnam and sent along a Norwegian crew to demonstrate its use. At sea, the trawler encountered some refugees in a small open boat. A Vietnamese security squad aboard the trawler opened fire with machine guns, killing all the refugees. Horrified by this scene, the Norwegian fishermen immediately returned the trawler to port and embarked on the first available plane for Oslo, refusing official gifts offered to them at Hanoi airport. The Norwegian government backed their action by

rejecting a “complaint” from Hanoi, whereupon the U.S.S.R volunteered to send a crew to replace the Norwegian. The Vietnamese military intervention in Kampuchea, although considered as legitimate in view of national defense, and the issue of boat people put the country into a political isolation that inevitably deepened its diplomatic (or political) dependence on the U.S.S.R. The Vietnamese also received a significant support of education from the U.S.S.R.

2.4. Education Dependence

The U.S.S.R undertook the training of 2,000 technicians and 400 vocational education teachers per year in support of the Vietnam’s 1976 – 1980 Five – Year Plan. There had been an intensive effort by Moscow to insinuate itself into the Vietnamese educational system. Accordingly, educational institutions in Vietnam relied increasingly on Soviet sources for everything from textbooks to school buildings since 1978. By 1985, more than one hundred Vietnamese educational institutions and state research institutes were involved in systematic educational programs with the U.S.S.R. Particularly, during the 1980 – 1985 Five-Year Plan, the number of Vietnamese full-time students in the U.S.S.R at any one time was about 30,000. Apart from the number of Vietnamese students attending educational institutions in the U.S.S.R, Vietnam also hosted Soviet educators and educational advisers. As estimated, there were about 2,000 Soviet educators and educational advisers working in the country in 1982. Additionally, Vietnamese educational dependence on the U.S.S.R included school constructions. From the end of the Vietnam War in 1975 to 1985, Soviet constructed eight vocational training schools and three industrial teachers colleges, and equipped three more.

Chapter 3 - The Transitional Period from 1986 to 1995

As seen from the political, security, and economic points of view, the deep dependence on the U.S.S.R was crucial to Vietnam during its process of immersing the two economies of the North and the South and the wars fought with Kampuchea and China. Yet, the dependence cost Vietnam dearly in economic backwardness that put the country into hunger and poverty in addition to international isolation.

3.1 Economic development and human development under dependence on U.S.S.R

Under the full dependence on the U.S.S.R, Vietnam remained an impoverished country, barely able to feed its increasing population, with little heavy and only limited light industry to produce trade goods. With the dependent elements as presented above, the centrally planned Vietnamese economy was quite similar to the Soviet Bloc's model on the grounds of internal mechanism and poor levels of development. While it was not a total closed economy, Vietnam gained a little economic development particularly when the Vietnam War came to an end in 1975. Instead of concentrating on recovering economy, improving labor skills, and producing more agricultural products and consumer goods as results of heavy damage from the war, Vietnam adopted an economic policy by prioritizing heavy industry and "revolution of the relations of production" with the extension of the centrally-planned mechanism in the North to the South where it used to drive its economic development in the capitalism model. Though some industrial projects were built, such as electricity power, cement production, and other sectors supported by

the U.S.S.R, the economy remained stagnant¹². The principal causes¹³ for the failure of economic development could be summarized as follows:

- The enforcement of the socialist reform of the economy in the South by collectivization of agricultural farms and nationalism of trade and industry completely damaged the people's incentives for production in the South.

- Excessive bureaucracy, distorted prices, and the incentive system, and the wrong industrialization strategy – all the products of a central command economy – greatly hindered its economic efficiency.

- Vietnamese military intervention in Kampuchea since the end of 1978 had not only caused the China-Vietnam War, but also resulted in a diplomatic isolation of the country, which further strained its resources.

Under these circumstances, the Vietnam leaders thought of how to move away from outward dependence on the U.S.S.R to engagement in the world. The year 1986, unlike 1978 that marked the deeper dependence, was a significant time for Vietnam to start the process of engagement by ideological modification, institutional and structural reforms.

Ideologically, as indicated by Vo Van Kiet¹⁴, then Chairman of the Vietnamese State Planning Commission and a key economic reformer, the economic goals had not been met mainly because too much money had been spent on large-scale industrial

¹² Bui Tat Thang, *After the War: 25 Years of Economic Development in Vietnam*, , available from <http://www.nira.or.jp/past/publ/review/2000spring/06thang.pdf>

¹³ James W.Morley and Masashi Nishihara, Editors, *Vietnam Joins the World*, An East Gate Book, Copyright ©1997 by M.E. Sharpe, Inc., p.38.

¹⁴ Võ Văn Kiệt (23 November 1922 - 11 June 2008^[1]) was a Vietnamese politician and statesman. He was Prime Minister of Vietnam from 8 August 1991 to 25 September 1997. He was one of the Vietnamese political leaders that led the innovation (Đổi mới) policy in Vietnam. Source: http://en.wikipedia.org/wiki/Vo_Van_Kiet

projects also left unfinished. He also said that China was making tremendous efforts in its economic recovery by adopting some capitalist measures, and urged Vietnam to consider. As communist country, however, Vietnam had to rely on the ideology of Marxism-Leninism as an economically and politically driving force. Against this ideological background, then General Secretary Nguyen Van Linh¹⁵, a reform-minded leader, stated that

Bold use must be made of the potential of all economic structures in the country, including private and individual structures. But this does not mean that elements of capitalist exploitation will be restored. The leading role will always belong to the socialist sector.

This was backed up by the Party's media organ, Nhan Dan Daily News, that we are using capitalists to improve our economy. Marxism is against exploitation – not against being rich. Sometimes we misunderstand Marxism... that there will be no rich people and everyone will be equal can only happen in the advanced phase of capitalism. In the meantime, we have to put up with people being rich because they are talented and have a good mind.

3.2. The Communist Party's Sixth Congress in December 1986

With the above ideology in mind, the Sixth Congress of the Vietnamese Communist Party (December 1986) marked a turning point of great significance to transform the Vietnamese economy to an open, market-oriented, and globally integrated model. This model was to (1) enact policies for the integration of Vietnam into the world

¹⁵ Nguyễn Văn Linh (July 1, 1915–April 27, 1998) was a political leader of the Vietcong during the Vietnam War. He was the general secretary of the Communist Party of Vietnam from 1986 to 1991. During his time in office, Linh was a strong advocate of "doi moi" (renovation), an economic plan whose aim is to turn Vietnam economy to a market economy. As such, Linh was often touted the *Vietnamese Gorbachev* after the Soviet leader, who introduced *Perestroika*. Source: http://en.wikipedia.org/wiki/Nguyen_Van_Linh

and regional economies; (2) speed up foreign trade activities, encouraging foreign direct investments; and (3) stimulate the development of private organizations, individuals, and economic sectors. This model, known worldwide as “Doi Moi” in Vietnamese and “Renovation” or “Open-door Policy” in English, was made under the influence of the twenty-seventh National Congress of the Communist Party of the Soviet Union in February 1986 with the slogans of “glasnost” and “perestroika” by then Soviet Party Leader Gorbachev. Frustrated with the Vietnamese lack of reform and management, he should be pleased with the degree to which his influence has been felt in the realm of “glasnost” or “open door”. Based on this model, Vietnam has been adopting the measures that are closely related to the Neoclassical Model of Economic Development proposed by Robert Solow that “Economic growth can be exogenous. It depends upon freer international trade, reduction in administration, more open markets, privatization, and reduction in government interference”. In carrying out this model, Vietnam did make a crucial move in modifying the Marxism – Leninism ideology with certain elements of capitalism for development and engagement in the world from being dependent on the U.S.S.R. To prepare for this process, Vietnam made major changes in institutions and economic structure.

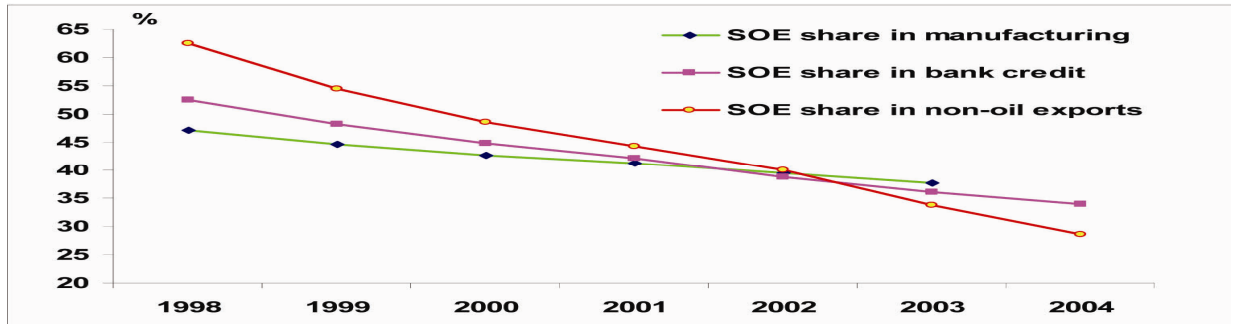
Institutionally, in order to put this ideology as shown in the above policy making into practice, Vietnam implemented some key institutional readjustments as demanded by the open-door policy. To this end, Vietnam enhanced the functions performed by the relevant governmental agencies, especially the establishment of Ministry of Planning and Investment (MPI) from the State Planning Commission and the State Committee for

Cooperation and Investment. The MPI proposed strategies for domestic economic development and foreign direct investment incentives to the government. Ministry of Trade and Ministry of Foreign Affairs were also given more functions to perform in more foreign trade relations and diplomatic relations with countries all over the world. Back to the period of Vietnamese dependence on the U.S.S.R., the Ministry of Trade used to handle imports and exports mainly with the Soviet under the framework of Commodity Exchange and Payment Agreement (1981 – 1985). The role played by Ministry of Foreign Affairs was also meaningful during the process of Vietnam's engagement in the world. What Vietnam has achieved as of today largely depends on the smooth coordination of the three indicated ministries, especially the efforts made by the Ministry of Trade and Ministry of Foreign Affairs in the process of joining regional and global organizations for economic development and human development.

Structurally, Vietnam has been making structural adjustments in privately owned and state-owned as well as agriculture sectors. In realization of the importance on privatization attached to economic development, Vietnam had shown its positive manner in the process of facilitating the development of privately owned enterprises (POE) and reforming state-owned enterprises (SOE). In his opening remarks to the National Assembly in November 1999, then Prime Minister stressed the importance of creating a favorable climate for private sector development, and in the same year, the Enterprise Law was enacted to provide a strong basis for private sector development. Also, privatization is defined economically as a method of reallocating assets and resources from the public sector to the private sector. In Vietnam, it is the process of reducing

importance of stated-owned enterprises as shown decline hereunder in the major shares in manufacturing, bank credit, and non-oil exports.

Figure 1 SOE Reduction in Vietnam from 1998 to 2004



- SOE share in manufacturing was down to roughly 43% from 48%; SOE share in bank credit from 53% to 38%; and SOE share in non-oil exports from 63% to 33% for the 1998 – 2004 period. The process of privatization will be illustrated in more details in the part of Achievements in economic development.

According to the economist W. Arthur Lewis, Structural Transformation is the general theory of the development process in surplus-labor the Third World nations during most of the 1960s and early 1970s. It still has many adherents today. In the Lewis model, the underdeveloped economy consists of two sectors: a traditional, overpopulated rural subsistence sector characterized by zero marginal labor productivity classified as surplus labor possibly withdrawn from, and a high-productivity modern urban industrial sector into which labor from the subsistence sector is gradually transferred. Both labor transfer and modern-sector employment growth are brought about by output expansion in that sector¹⁶. This model is suited to Vietnam as a primarily agricultural economy for its

¹⁶ Michael P. Todaro and Stephen C. Smith, *Economic Development – Ninth Edition*, Pearson Addison Wesley, 2006, p.108

structural reform. With the table below¹⁷ of GDP share by sectors in Vietnam from 1990 to 2005, agriculture's share of total output decreased noticeably while output in the industrial and services sectors increased.

Table 3 Structural Transformation in Vietnam

SECTOR	AGRICULTURE	INDUSTRY	SERVICES
% GDP (1990)	41	23	36
% GDP (1994)	29	30	42
% GDP (1995)	27.2	Unknown	44
% GDP (1997)	26	31	43
% GDP (1999)	25.8	33.5	40.7
% GDP (2000)	24.5	Unknown	38.8
% GDP (2005)	20.89	41.04	38.7

One of the significant domestic changes in Vietnam to be prepared for the open-door policy is the legal framework for trade policy as illustrated in the below table:

Table 4 Major changes in trade policy in the first few years of *Doi Moi*

Year	Changes in trade and exchange system	Other reforms
1986		- VI Party Congress declares beginning of Doi Moi
1987	- <i>Law on Foreign Investment</i> — introduction of 'open door' policy	- Land law established private use of allocated land in agriculture
1988	- Foreign exchange control decree liberalises retention of foreign exchange, opening of foreign currency accounts, use of transfers to pay for imports and repay foreign loans - Devaluation of trade and invisible payments exchange rates	- Creation of a central treasury to execute the budget - Creation of two tier banking system - Cooperative method of agriculture production abandoned in favor of households - Farming households given long term rights to use land for agricultural

¹⁷ Sources: 1. Vietnam – An Asian Developing Country in Transition – Case Study Australia – Government Education Resource Achievements in Social Economic Developments 2. Achievements in Socio-Economic Development 1986 – 2005 The Ministry of Planning and Investment of Vietnam.

1989	<ul style="list-style-type: none"> - Restrictions on establishment of foreign trading organisations relaxed and central government monopoly of foreign trade terminated - <i>Law on Import and Export Duties</i> introduces the customs tariff - Quotas removed on all but ten export and 14 import commodities (subsequently reduced to seven export and 12 import commodities) - Requirement that SOEs fulfill CMEA export targets before exporting to convertible currency area removed - Number of export commodities subject to export duties reduced from 30 to 12 and most rates reduced - Producers of exportables allowed to sell to any appropriately licensed foreign trade company - Number of import commodities subject to duties reduced from 124 to 80, range of rates expanded from 5–50 per cent to 5–120 per cent - Foreign exchange rate system unified 	<p>production</p> <ul style="list-style-type: none"> - Encouragement of private enterprises becomes official policy - <i>Land Law</i> creates nontransferable, exclusive land use rights for agriculture - Nearly all forms of direct subsidisation of production and price control removed — end of ‘two price’ system - Domestic trading in gold legalised - <i>Ordinance on Economic Contracts</i> establishes rights for legal entities to enter into contracts - Bank interest rates made positive in real terms
1990	<ul style="list-style-type: none"> - Special sales tax introduced - Turnover tax and profit tax introduced - <i>Law on Foreign Investment</i> revised 	
1991	<ul style="list-style-type: none"> - Foreign exchange trading floors opened at SBV - Regulation on setting up export processing zones (EPZs) promulgated - Export duty on rice reduced from 10 per cent to 1 per cent - Imported inputs used to produce exports exempted from duty 	<ul style="list-style-type: none"> - <i>Law for State Bank of Vietnam and National Law on Banks, Cooperative Credit Institutions and Financial Institutions</i> enacted, prohibiting SBV from commercial banking and empowering it as central bank - <i>Law on Private Enterprises</i> establishes legal basis for establishment of sole proprietorships - <i>Law on Companies</i> establishes legal basis for, limited liability and shareholder business entities - Agriculture Bank of Vietnam allowed to lend to households

1992	<ul style="list-style-type: none"> - Private companies allowed to directly engage in international trade - Harmonised system of tariff nomenclature introduction - Foreign investment law amended to reduce discrimination in favour of joint ventures against 100 per cent foreign owned enterprises, and to introduce build operate transfer (BOT) concept for infrastructure projects - Trade agreement signed with European Union (EU) establishes quota on exports of textiles and clothing to EU and grants tariff preference on selected imports from EU 	<ul style="list-style-type: none"> - New constitution allows individuals to exercise property rights over income producing assets and personal property - Pilot equitisation program for SOEs introduced
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Source: Trade, Development, and Poverty Reduction – The Case of Vietnam, available at: http://www.cuts-citee.org/PDF/BACKGROUNDER-Final_Vietnam.pdf

In order to escape international isolation and take advantage of structural changes in external conditions, Hanoi launched a new diplomatic offensive consisting of four parts: (1) to get out of the Cambodian quagmire; (2) to improve relations with ASEAN countries; (3) to normalize relations with the United States; and (4) to normalize relations with the People's Republic of China¹⁸.

3.3. Detaching from Kampuchea

In addition to the above radical reform in foreign policy, Vietnam was in need of settling the issue of its military intervention in Kampuchea as a pre-requisite for engagement as demanded by those countries and regional organizations Vietnam wished

¹⁸ James W. Morley and Masashi Nishihara, Editors, Vietnam Joins the World, An East Gate Book, Copyright ©1997 by M.E. Sharpe, Inc., p.141.

to re-establish or establish relations with, such as the United States of America, People's Republic of China, and Association of South East Asian Nations (ASEAN).

The Vietnamese military intervention in Kampuchea, begun at midnight, December 24, 1978, was the decisive turning point both for bilateral relations between Vietnam and Kampuchea and for the triangular relations among the People's Republic of China, the U.S.S.R and Vietnam. A new structure of regional confrontation became evident. On the one hand, a dual rivalry divided Cambodia: the antagonism between China and the U.S.S.R. On the other hand, the "brother enemy" confrontation between pro-Soviet communists and pro-Chinese ones, with the Beijing-Khmer Rouge alliance politically backed by ASEAN as well as the Western capitals¹⁹.

Vietnam's policy towards the issue of military intervention in Kampuchea and the normalization of relations with China was made clear at the Eleventh Conference of the Foreign Ministers of Indochina held in Phnom Penh, the capital of Kampuchea, in August 1985. In a Joint Statement at this Conference, Vietnam expressed a desire for normalization of relations with China and the intention, publicly mentioned for the first time, to complete the withdrawal of the Vietnamese voluntary troops from Kampuchea before 1990. The nature of the complete withdrawal of Vietnamese troops from Kampuchea was closely related to, by Vietnam's expectation, progress on such other issues as the lifting of U.S. embargo against Vietnam, the start of talks on U.S. – Vietnam normalization of relations, as well as China – Vietnam normalization of relations. This was really a significant concession of Vietnam to escape from international isolation, or

¹⁹ James W. Morley and Masashi Nishihara, Editors, *Vietnam Joins the World*, An East Gate Book, Copyright ©1997 by M.E. Sharpe, Inc., p.137.

in other words, had doors opened for Vietnam to engage the world. Consequently, the Vietnamese troop withdrawal brought the international community closer together at the Paris Accord on Kampuchea. This Accord was concluded in October 1991. Accordingly, China declared an end to its aid to the Khmer Rouge, making it clear that China had split with Pol Pot, the leader of the Khmer Rouge. The withdraw of the last group of Vietnamese forces from Kampuchea in September 1989 constituted confirmation of the definite change in Vietnam's Kampuchea policy that had evolved since 1985. It was Heng Samrin²⁰ of the People's Republic of Kampuchea (PRK), who first announced in January 1989, on the occasion of the Indochinese Foreign Ministers' Conference, that Vietnam would complete its withdrawal before September 1989 on the condition that a political solution would be reached in advance. However, three months later, in April, Hanoi announced the withdrawal within the same time limit without any condition attached at this time. The biggest reason behind this unconditional withdrawal was to prove to the international community Vietnam's desire for peace in Kampuchea²¹.

3.4. Normalizing Relations with People's Republic of China

The hostility between the former "comrades" occurred in the years 1979 – 1990. China was outraged that Vietnam successfully expelled the China-backed Pol Pot regime in a very short time²², established the pro-Vietnam Heng Samrin regime in Phnom Penh,

²⁰ Heng Samrin (born 1934) is a Cambodian Communist politician.^[1], vice chairman (1998-2006) and chairman of the National Assembly Cambodia since 2006. The Khmer Rouge collapsed in 1979, and Heng set up a new Communist government. He became chairman of the People's Revolutionary Council in 1979. In 1981 he became chairman of the Council of State and secretary-general of the People's Revolutionary Party. Source: http://en.wikipedia.org/wiki/Heng_Samrin

²¹ James W. Morley and Masashi Nishihara, Editors, Vietnam Joins the World, An East Gate Book, Copyright ©1997 by M.E. Sharpe, Inc., p.143.

²² Vietnam sent volunteer troops to Kampuchea December 24, 1978 and drove the Pol Pot out of Cambodia in January 1979.

and called for a “battle alliance” of the three Indochinese countries²³, and had already concluded a Treaty of Friendship and Cooperation with Laos. China then denounced Vietnam as the “Cuba of the East,” charging it with carrying out proxy activities for the Soviet Union. China also accused Vietnam of being a “small hegemonist” with an ambition to form a “Federation of Indochina” and thereby gain hegemony in South East Asia. The charge, of course, was denounced by Vietnam. In early 1979, Deng Xiaoping²⁴ visited the United States. On January 30, he revealed his plan to punish Vietnam to the Senate Foreign Relations Committee and to the former President Jimmy Carter and appeared to receive *de facto* approval. On February 17, Chinese forces initiated a “self-defensive counterattack” across the Vietnam border, and after occupying Lang Son province on March 5, withdrew behind the border. Although the war was called defensive, it was clear that Chinese intentions were, first, to constrain Vietnamese action in Kampuchea by threatening the northern part of the country and, second, to “punish” Vietnam” for not only violating the international code of nonaggression, but also for expelling the pro-China Khmer Rouge regime from Phnom Penh. Apart from attacking Vietnam from the northern part of the country, China was an active player in the prolonged war in Kampuchea by providing most of the military assistance that kept the Khmer Rouge in the field and encouraged them to join the popular Prince Norodom

²³ The three Indochinese countries include: Vietnam, Laos, and Cambodia.

²⁴ Deng Xiaoping (simplified Chinese: 邓小平; traditional Chinese: 鄧小平; pinyin: Dèng Xiǎopíng; Wade-Giles: Teng Hsiao-p'ing; 22 August 1904 – 19 February 1997) was a prominent Chinese revolutionary, politician, pragmatist and reformer, as well as the late leader of the Communist Party of China (CPC). Deng never held office as the head of state or the head of government, but served as the *de facto* leader of the People's Republic of China from 1978 to the early 1990s. Source: http://en.wikipedia.org/wiki/Deng_Xiaoping.

Sihanouk²⁵, whom China also supported, and Son Sann²⁶, the former premier, to form a united anti-Vietnam front²⁷.

The situation in Kampuchea was stalemated until the late 1980's, when the ravages of the war, the failures of the socialist system, and the loss of financial support from its Soviet and the East European allies forced Vietnam to make a fundamental change of direction. The war in Kampuchea was terminated, the economic reform was undertaken from the Sixth National Party Congress in December 1986, and the doors were opened to peaceful engagement in the world community. It was in this context that the decision was taken to try to put relations with China on a new footing. For its part, China, suffering from the international isolation imposed after the Tiananmen Incident²⁸ in June 1989, also saw the desirability of détente. Unofficial contacts picked up. Cross-border trade was resumed. In September 1990, in the context of the Kampuchea peace negotiations, a secret meeting between leaders of the two countries was held in Chengdu, China. Jiang Zemin²⁹, Li Peng³⁰ from China and Nguyen Van Linh, Pham Van Dong³¹

²⁵ King Norodom Sihanouk ព្រះនរោត្តម សីហនុ regular script នរោត្តម សីហនុ (born October 31, 1922) was the King of Cambodia until his abdication on October 7, 2004. He is now "King-Father (Khmer: *Preahmâhaviraksat*) of Cambodia," a position in which he retains many of his former responsibilities as constitutional King. Source: http://en.wikipedia.org/wiki/Norodom_Sihanouk.

²⁶ Son Sann (October 5, 1911 – December 19, 2000) was a Cambodian politician and anti-communist resistance leader. Born in Phnom Penh, he held the office of Prime Minister in 1967-68. Source: http://en.wikipedia.org/wiki/Son_Sann.

²⁷ James W. Morley and Masashi Nishihara, Editors, *Vietnam Joins the World*, An East Gate Book, Copyright © 1997 by M.E. Sharpe, Inc., pp.120 - 121.

²⁸ The Tiananmen Square protests of 1989 culminating in the Tiananmen Square Massacre (referred to in Chinese as *the June Fourth Incident*, to avoid confusion with two other Tiananmen Square protests) were a series of demonstrations in and near Tiananmen Square in Beijing in the People's Republic of China (PRC) beginning on April 14. Led mainly by students and intellectuals, the protests occurred in a year that saw the collapse of a number of communist governments around the world. Source: http://en.wikipedia.org/wiki/Tiananmen_Square_protests_of_1989.

²⁹ Jiang Zemin (simplified Chinese: 江泽民; traditional Chinese: 江澤民; pinyin: Jiāng Zémín; Wade-Giles: Chiang Tse-min; born 17 August 1926) was the "core of the third generation" of Communist Party of

from Vietnam attended the meeting. After the meeting, exchanges between the two countries became frequent.

Finally in November 1991, two weeks after the conclusion of the Paris Accord on Cambodia, official relations between Vietnam and China were restored. By normalization, however, the Vietnamese did not mean to signal a return to the heady days when they saw the Chinese as comrades in a struggle of global proportions. The two countries are, of course, intensely interested in each other's reform policies. As Nguyen Van Linh and Vo Van Kiet remarked on the occasion of Jiang Zemin's visit in November 1994, one of the things that drew the countries together was the similarity of their situations and the possibility therefore of "learning" from each other. Each was trying to transform a planned economy into a market economy. Each wanted to integrate into the world market. Each was trying to preserve its political system by a single party. Each shared the view that for reform and economic development, a peaceful international environment was indispensable³².

The diplomatic resolutions with Cambodia and China have brought about security to Vietnam for economic development as these countries have become trading partners

China leaders, serving as General Secretary of the Communist Party of China from 1989 to 2002, as President of the People's Republic of China from 1993 to 2003, and as Chairman of the Central Military Commission from 1989 to 2004. Source: http://en.wikipedia.org/wiki/Jiang_Zemin.

³⁰ Li Peng (simplified Chinese: 李鹏; traditional Chinese: 李鵬; pinyin: Lǐ Péng; Wade-Giles: Li P'eng), (born 20 October 1928) was the Premier of China between 1987 and 1998, the Chairman of the Standing Committee of the National People's Congress (NPC) of the People's Republic of China (PRC) from 1998 to 2003 and was second-ranking in the Communist Party of China (CPC) behind Jiang Zemin on the Politburo Standing Committee until 2002. Source: http://en.wikipedia.org/wiki/Li_Peng

³¹ Phạm Văn Đồng (March 1, 1906 – April 29, 2000) was an associate of Hồ Chí Minh. He served as Prime Minister of North Vietnam from 1955 through 1976, and was Prime Minister of reunified Vietnam from 1976 until he retired in 1987. Source: http://en.wikipedia.org/wiki/Pham_Van_Dong

³² James W. Morley and Masashi Nishihara, Editors, Vietnam Joins the World, An East Gate Book, Copyright ©1997 by M.E. Sharpe, Inc., p.122.

with Vietnam. This has led to increasing trading activities at the bilateral levels between Vietnam and Cambodia and Vietnam and China respectively within the frameworks of ASEAN and World Trade Organization (WTO). Given below are the illustrating statistics of the Vietnamese trading and foreign direct investment activities with these two countries.

In 2006 alone, exports between Cambodia and Vietnam increased up to 30%; the export turnover from Vietnam to Cambodia reached 780 million U.S. dollars, and that from Cambodia to Vietnam reached 170 million U.S. dollars. The two-way exports would be expected at 2 billion U.S. dollars by 2010 as replied by Ambassador of the Kingdom of Royal Cambodia to Vietnam to press interviews on the occasion of the 40th Anniversary of the Diplomatic Relationship between the two countries in the capital of Hanoi, Vietnam.

According to the Ministry of Planning and Investment of Vietnam, Chinese investors have 437 projects worth of 1,182 billion U.S. dollars operative in Vietnam as of April 2007. China ranks 14/77 on the list of countries and territories with foreign direct investments in Vietnam.

Therefore, the successful relationships with Cambodia and China have brought about not only border security but also trading prosperity to Vietnam, thus making the country a safe and favorable climate for foreign direct investment.

3.5. Normalizing relations with the United States of America

Dealing with the United States became a hard part since both sides had quite a number of outstanding issues, such as: a peaceful political settlement in Cambodia after

the Vietnamese troop withdrawal, the Prisoners of War (POW) and Missing in Action (MIA), the key issues as indicated in the so-called roadmap for a normalization process presented by the George H.W. Bush Administration in April 1991. Earlier in the 1980's, both countries showed their willingness to work with each other on a humanitarian operation. Late U.S. President Ronald Reagan dispatched his special envoy, late General John W. Vessey to Vietnam for talks with Tran Quang Co, Vice Minister for Foreign Affairs of Vietnam about the resettlement in the U.S. for former South Vietnamese Government officials, military and civil, as well as those working closely with the U.S. government and U.S. military forces. They were released from the re-education camps. Regardless of how hard it is, Vietnam has been making thus far outstanding efforts in successfully dealing with the U.S. on two key humanitarian and economic issues.

In respect to the POW/MIA issue, Vietnam delivered significant documents to the U.S. This led to the declaration by former President Bill Clinton in July 1993 that the United States would not oppose Vietnam-bound aid from international financial institutions. Then, all economic sanctions against Vietnam were lifted by the Clinton Administration on February 3, 1994. On July 11, 1995, former President Clinton made an official statement to normalize diplomatic relations with Vietnam.

Economically, Vietnam officially entered into trading with the U.S by the Bilateral Trade Agreement (BTA) on December 10th, 2001. BTA aimed at lowering tariff for Vietnam from 40% down to 4% to widen the U.S market for Vietnamese exports on an equal footing with other trading competitors, thus increasing exports from Vietnam to the U.S between US\$1 billion in 2001 and US\$ 5 billion in 2004 while U.S exports to

Vietnam doubled. While it is still early to make any concrete assessment because the implementation of BTA relies on how the two countries conduct in the decades to come - “It takes two to tango” as commented by the former Deputy Secretary of State, Robert B. Zoellick during his visit in May 2005 to Vietnam. It is obviously that the BTA has positive impacts on the economic development of Vietnam, particularly in the areas of trade and investment.

The BTA significantly improved Vietnam’s business environment, encouraging more US-related FDI, and also encouraged non-U.S. FDI, especially in factories to produce apparel, footwear, furniture, seafood, and other products to be exported to the huge U.S. market. In 2004, U.S.-related FDI accounted for 20% of FDI into Vietnam.³³.

The trading relations between the Socialist Republic of Vietnam and the United States were also indicated in Remarks by U.S Secretary of Commerce Carlos M. Gutierrez at the seminar jointly organized by Ministry of Foreign Affairs, Vietnam Chamber of Commerce & Industry (VCCI), and US-Vietnam Friendship Society on November 6, 2007, illustrated as below:

The United States is Vietnam’s top export market, and an important source of investment. And Vietnam is one of America’s fastest growing markets in Asia. During the first eight months of this year, U.S. exports to Vietnam grew 67 percent. It is estimated that our two-way trade will surpass \$12 billion this year. Additionally, the BTA gave impetus to domestic reforms such as the Enterprise Law, which liberalized the domestic private sector. It unleashed hundreds of thousands of private businesses. And it created millions of jobs, effectively helping the domestic non-state sector eclipse the state sector.

With these developments, the U.S. has proved a key counterpart of Vietnam into the process of integrating into the world. In this sense, the political leaders of Vietnam

³³ Source: American Chamber of Commerce in Vietnam – Ho Chi Minh City Chapter

have been patient and concessionary enough to deal with the U.S. For example, the main obstacle to full WTO membership of Vietnam was a U.S. Congressional delay in granting Vietnam Permanent Normal Trade Relations (PNTR) also known as “Most-Favored Nation” (MFN)³⁴ status. In May 2006, the two countries signed a bilateral market access agreement, the last of twenty-eight trade agreements Vietnam had to negotiate with the other WTO members to gain membership. Although these types of trade agreements do not normally necessitate approval from Congress, then U.S President was barred from granting Vietnam PNTR status for Vietnam is a communist state prohibited from such status under a 1974 trade act.

With a new direction in foreign policy, Vietnam had made significant achievements in clearing all obstacles, as shown in the issue of Cambodia and the normalizations of relations with China and the United States, and other Western countries for economic development and human development. Since the major obstacles were removed, Vietnam had started the process of integrating in the world.

³⁴ Most favoured nation (MFN), also called Normal Trade Relations in the United States, is a status awarded by one nation to another in international trade. It means that the receiving nation will be granted all trade advantages — such as low tariffs — that any other nation also receives. In effect, a nation with MFN status will not be treated worse than any other nation with MFN status, available at: http://en.wikipedia.org/wiki/Most_favoured_nation

Chapter 4 - The Global Integration Period from 1995 to 2005 and Achievements in Economic Development and Human Development

As set in the resolution of the Sixth Congress of the Vietnamese Communist Party (December 1986), Vietnam is keen to open markets to the regional and global economies. The country has made very important steps in engaging the world from economic perspectives as seen from its economic relations with ASEAN, Asia-Pacific Forum for Economic Cooperation (APEC), and WTO for economic development. High levels of economic interdependence, most notably trade flows, the complementarities of economics and policies, the availability of compensatory mechanisms for integration in developing countries, and the desire to attract foreign investment through creation of a larger market are commonly linked to regional economic initiatives³⁵.

4.1. Achievements in economic development

From the economic point of view, Vietnam is on the right path for economic development as illustrated in trade liberalization, foreign direct investment, privatization, structural transformation (structural transformation has been mentioned earlier as a preparation for Vietnam to join the global economy) , and official development assistance.

4.1.1. Trade Liberalization

Free trade can be an engine of economic growth. For an overview of how free trade brings about benefits to economic development, let us see the traditional arguments as outlined: (1) The theory of absolute advantage by Adams Smith suggests that countries

³⁵ Margaret P. Karns and Karen A. Mingst “*International Organizations – The Politics and Processes of Global Governance*” Lynne Rienner Publishers, Inc., 2004, p.150

differ in their ability to produce goods efficiently. The theory suggests that a country should specialize in producing goods in areas where it has an absolute advantage and import goods in areas where other countries have absolute advantages; (2) The theory of comparative advantage by David Ricardo suggests that it makes sense for a country to specialize in producing those goods that it can produce most efficiently, while buying goods that it can produce relatively less efficiently from other countries even if that means buying goods from other countries that it could produce more efficiently itself. The theory of comparative advantage also suggests that unrestricted free trade brings about increased world production; that is, that trade is a positive-sum game. The theory of comparative advantage also suggests that opening a country to free trade stimulates economic growth, which creates dynamic gains from trade. The empirical evidence seems to be consistent with this claim; and (3) The Heckscher-Ohlin theory argues that the pattern of international trade is determined by differences in factor endowments. It predicts that countries will export those goods that make intensive use of locally abundant factors and will import goods that make intensive use of factors that are locally scarce³⁶.

Paul Samuelson extended H-O Theorem also argues that after trade, country's abundant factor of production will benefit, and scarce factor production will lose. Trade gives a higher benefit to country's abundant factor of production. Since developing countries have abundant labor, a mutually beneficial trade can occur if they specialize in labor intensive goods and export them to the rest of the world. By doing this, they would experience higher rate and/or higher labor employment.

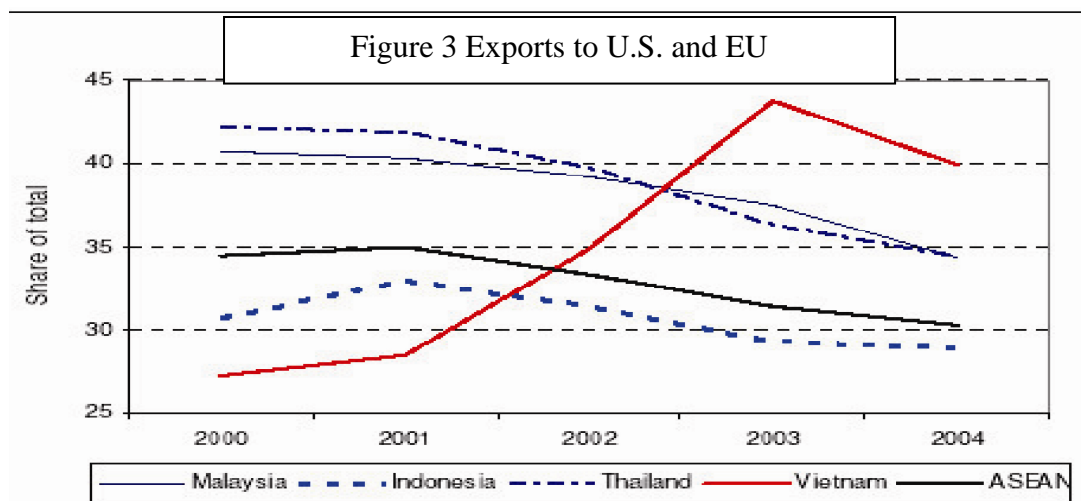
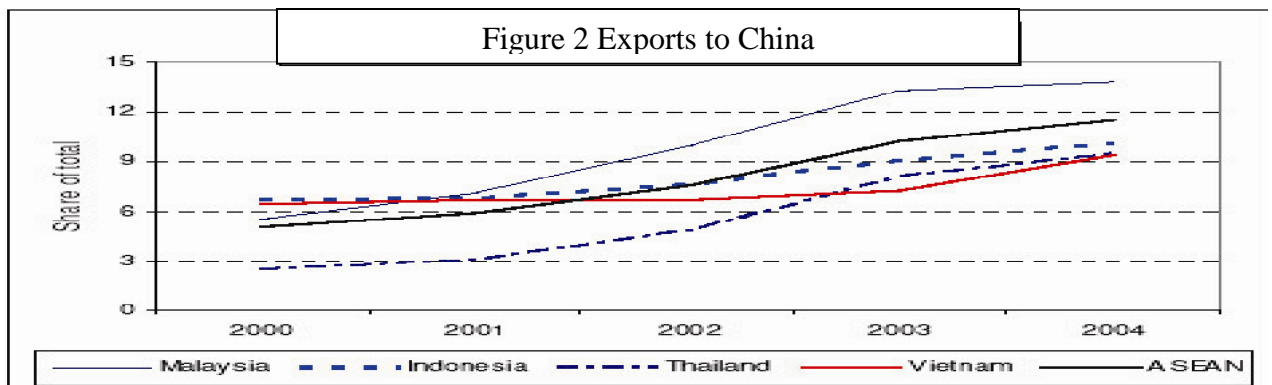
³⁶ http://highered.mcgraw-hill.com/sites/0072470534/student_view0/chapter4/chapter_summary.htm

As a member of the Soviet Bloc before 1986, Vietnam's international trade was limited to Commodity Exchange Program with Socialist member countries with high tariffs and numerous non-tariff barriers to govern these trade activities. In order to have more trade activities, as an important part of the Vietnamese economy, Vietnam has implemented trade liberalization, including tariff reductions and other measures designed to relax import and export restrictions, particularly Decision 46 by the then Prime Minister, coming into effect in May 2001, has led to a reduction in non-tariff barriers and more transparent and predictable import and export regulations.

Furthermore, trade liberalization has been seen from bilateral and multilateral trade agreements with regional and international countries Vietnam has been engaging for principal exports as agricultural products, marine products, crude oil, rubbers, coffee, shoes, and garments and for main imports as machinery and equipment, petroleum products, fertilizers, steel products. As a result of trade liberalization, Vietnam's foreign trading activities have been expanding rapidly since 1990. Exports grew at an average annual rate of 24.7% for the period from 1990 to 2001. Total exports reached US\$ 15,027 million in 2001 and total imports reached US\$ 16,200 million in the same year. Within the last few years, for example, as in 2004, crude oil was the leading export – increasing by 33.5% in spite of a decrease in volume of 7.2%. In the first ten months of 2005, exports grew by 22% compared to imports growing at 18.3%. In addition to the percentage growth of Vietnam's exporting and importing activities, the structure of Vietnamese exports has changed remarkably in recent years. The U.S, EU and China

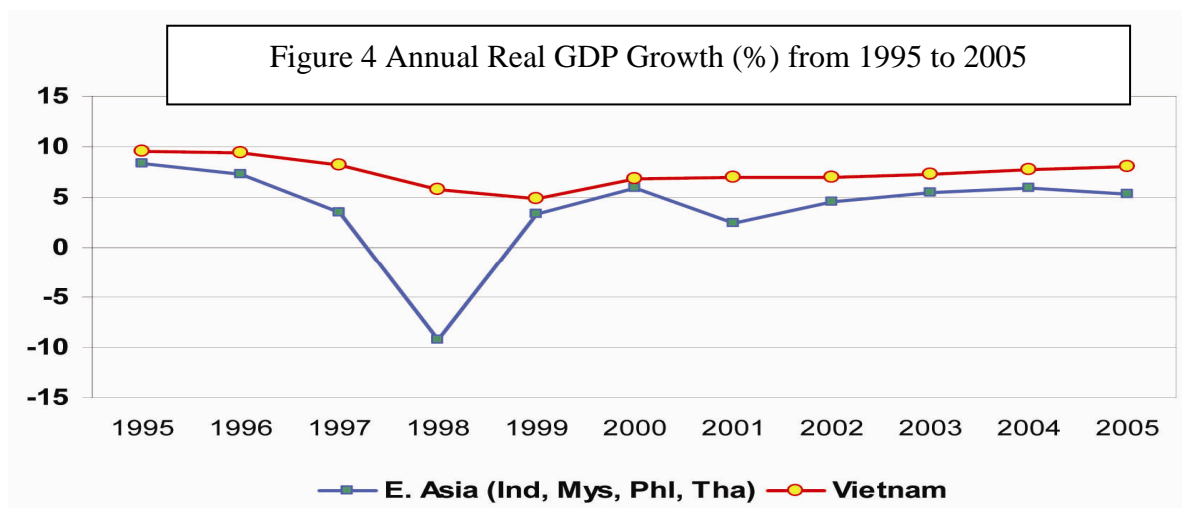
increased their share of Vietnamese exports by about 50% since 2001 with smaller shares of intra-ASEAN trade and exports to East Asia.

At the bilateral level, Vietnam signed a number of trade agreements with more than 60 countries; including the significant bilateral agreement with the United States of America taking effect in December 2001. At the regional and international levels, Vietnam agreed to participate in ASEAN, APEC, and WTO as the three major regional and global economic institutions for further economic development. Vietnam's participation in these organizations will be mentioned in a separate chapter.



Source: Regional Outlook Forum 2006 – Singapore. Paper on Vietnam Economic Update from 2006 and Prospects to 2010 prepared by Dr.Adam McCarty.

As argued by the Neoclassical model that economic growth can be exogenous, dependent on international trade, Vietnam has been successful in expanding more trading activities to the rest of the world thanks to the “Doi Moi” Process, and economic development is traditionally measured by Gross Domestic Product. This is further confirmed that Vietnam has achieved economic growth as shown in the below figure:



Source: Investment Climate Assessment Vietnam 2006 as a part of the Presentation by Mme Pham Chi Lan, Senior Advisor to the Prime Minister of Vietnam for the Prime Minister’s Research Commission, at Workshop on Investment Climate and Foreign Direct Investment in CLMV (Cambodia, Laos, Myanmar, and Vietnam) Countries, hosted by Private Sector Development – the World Bank.

According to the figure, there was a decline in Real GDP Growth Rate from 1997 to 1999 due partly to the Asian Economic Crisis. Vietnam, however, thereafter did regain its Real GDP Growth Rate from 7.0 to 7.5 from 2001 to 2005. In parallel with more trading activities with the rest of the world, Vietnam has adopted foreign direct investment policy for economic development.

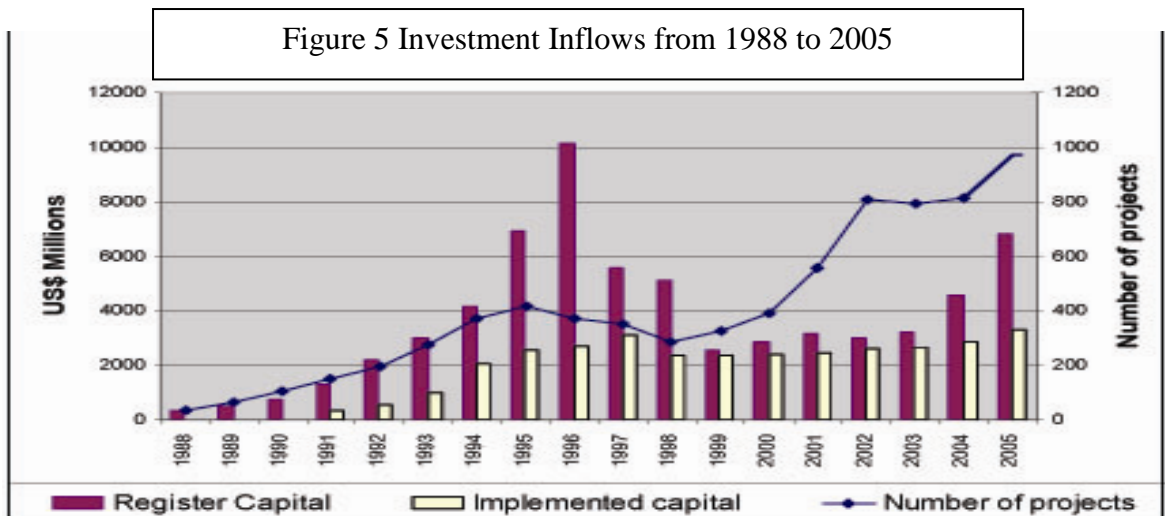
4.1.2. Foreign Direct Investment in Vietnam

According to the Neoclassical Model, Robert Solow argues that output growth results from one or more of the three factors: increase in labor quantity and quality (through population growth and education), increase in capital (through saving and investment), and improvements in technology. To apply this growth argument to Vietnam's economic development, it is in line with the roles played by Vietnam's policy of Foreign Direct Investment (FDI) to: (1) Constitute important added resources for national economic development; (2) Help improve the technological level of domestic enterprises; and (3) Help create jobs and develop the human resources.

The first Law on Foreign Direct Investment (FDI) in Vietnam was passed by the National Assembly (NA) on December 29th, 1987 and went through amendments in 1990, 1992, 1996, 2000, with the forms of business-cooperation contract, joint-venture, 100%-foreign ownership in addition to Export Processing Zone (EPZs), Industrial Parks (IPs), Build-Operate-Transfer (BOT), Build-Transfer-Operate (BTO), and Build-Transfer (BT). Particularly, the new Investment Law which was passed and came into effect on July 1st 2006 has created more favorable conditions as a means of adaptability to the investment climate of the country with more incentives and relax in licensing procedures to attract foreign investors, such as reducing land rental fee at 0.18 – 1.08 US\$/m²/year in suburban areas in Hanoi and Ho Chi Minh City; keeping utilities supply cost down at US\$ 0.086 to US\$ 0.105 for office use; especially offering freedom to repatriate profit after completing all stipulated obligation with the government (tax rate at 0%); and fixing

licensing procedures at not more than 60 working days, including registration and evaluation of investment.

Since 1998, as a consequence, FDI inflows into Vietnam have been very encouraging and regarded as a momentum for the country to make a smooth transition from a centrally-planned economy to a market-oriented economy with an annually significant increase from US\$0.32billion in 1988 to nearly US\$ 6.3 billion as committed in 2005 , thus creating about 1 million jobs, contributing US\$ 1 billion to the State Budget while at the same time enhancing management skills and modern technology in use and restructuring economy towards industrialization and modernization regardless of “ups-and-downs” with “downs” partly due to the regional financial crisis 1990s, in attracting FDI and of “the gap” between FDI commitments (registered capital) and disbursements (realized capital) - the investment inflows are usually higher than the investment disbursements.

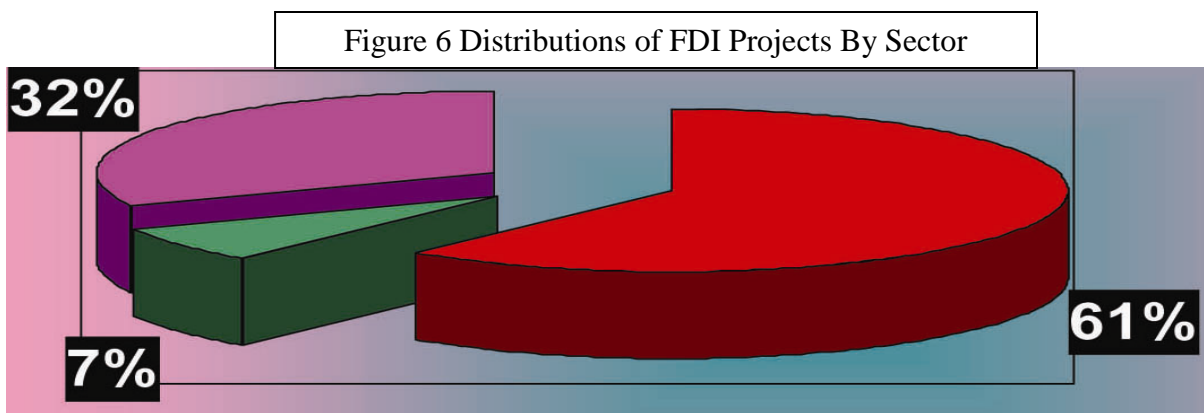


The figure above shows the overall trend of FDI inflows in Vietnam for the period of 1988 - 2005. Together with the number of investment projects, the amount of registered capital for licensed projects increased rapidly in the first half of the 1990s, which was generally referred to as the 'investment boom' period in Vietnam. Compared to the dramatic increase in registered capital, actual implementation remained far lower. The amount of registered capital peaked in the 1995 and 1996 and dropped sharply subsequently when the Asian economic crisis began to seriously impact on Vietnam. The FDI inflow started to pick up again as countries in the region recovered from the crisis and together with the signing of the US-Vietnam Bilateral Trade Agreement. Although not shown here in the above Figure, the trend of FDI inflow in Vietnam surges again with the accession of the country into the WTO. According to recently released statistics by the Government Statistical Office (GSO, 2006), 797 FDI projects with a total registered capital of US\$ 7.57 billion were licensed in 2006 across 43 provinces in the country. In the first three months in 2007, the result was even more spectacular with over 300 FDI projects and US\$ 2.5 billion registered capital³⁷.

In addition, the geographical and distributions of FDI by sector have also been improved. At the early days, FDI projects were usually carried out in such key economic areas with adequate infrastructure facilities and favorable administrative procedures as Ho Chi Minh City, Dong Nai province, Binh Duong province, and Ba Ria – Vung Tau province in the South, and Ha Noi Capital, Hai Duong province, Vinh Phuc province, Hai

³⁷ Foreign direct investment in Vietnam: An overview and analysis the determinants of spatial distribution across provinces by Nguyen, Ngoc Anh and Nguyen, Thang - Development and Policies Research Center - 10 June 20. Source: http://mpira.ub.uni-muenchen.de/1921/1/MPRA_paper_1921.pdf

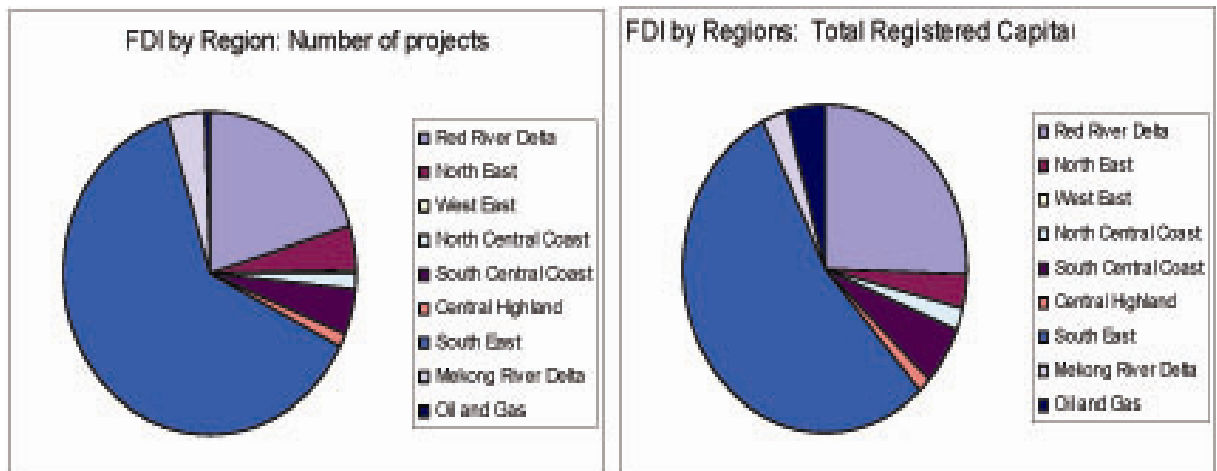
Phong province, and Quang Ninh province in the North, FDI projects are now spreading out to other areas too, such as centrally-administered cities of Can Tho in the South, Da Nang in the Centre as a result of improvements in infrastructures and the decentralization policy of the government. FDI projects by sector have been also diversified, albeit at a modest percentage, from industrial sector to service sector and agricultural sector. According to official statistics released by Foreign Investment Agency – the Ministry of Planning and Investment of Vietnam, the distribution of FDI projects by sector for the 1988 – April 2006 are as follows: (1) Industry and Construction: 4,255 projects, accounting for 61%; (2) Agriculture, forestry, and fishery: 798 projects, accounting for 7%; (3) Service: 1,237 projects, accounting for 32%.



According to official statistics by the Government Statistical Office (GSO) and MPI, all 64 provinces in Vietnam have received FDI though uneven. As shown in Figure 7, the South East region (covering Ho Chi Minh city and its surrounding provinces) accounts for the largest share of FDI. In the North, Hanoi and neighboring provinces account for the second largest share of FDI, leaving a very small proportion for other regions. This pattern is due to the fact that Hanoi and Ho Chi Minh City are the two

main economic hubs of the country. The concentration of FDI in Hanoi and Ho Chi Minh City has been attributed to the increased cost of living and doing business in the two cities. This has led to a tendency that foreign investors are looking elsewhere for the investment location. In addition, the local governments in these provinces have now realized the importance of FDI and are actively attracting inward FDI in their respective regions/provinces.

Figure 7 Regional FDI by number of projects and register capital



Source: Foreign direct investment in Vietnam: An overview and analysis the determinants of spatial distribution across provinces by Nguyen, Ngoc Anh and Nguyen, Thang - Development and Policies Research Center - 10 June 20.
Available: http://mpr.ub.uni-muenchen.de/1921/1/MPRA_paper_1921.pdf

Furthermore, the climate of investment in Vietnam with more incentives has been attracting foreign investments from wider regions than South East Asia as compared to that at the very beginning. The following table provides more information on the development of FDI, regarding capital commitments and disbursements as well as country classification.

Also, from the table below, Taiwan ranks 1st for foreign investors in Vietnam with 1,465 projects at US\$ 2,757,467,536 as realized capital while Malaysia ranks 10th with 189 projects at US\$ 816,167,420 as realized capital.

Table 5 Top Ten Foreign Investors in the Period 1988 – 4/2006 (Projects in operation)

Rank	Countries and Territories	Number of Projects	Registered Capital (USD)	Legal Capital (USD)	Realized Capital (USD)
01	Taiwan	1,465	7,909,737,514	3,442,195,304	2,757,467,536
02	Singapore	410	7,700,122,233	2,866,013,367	3,454,289,236
03	Japan	642	6,731,989,233	3,053,044,739	4,158,985,2381
04	South Korea	1,125	5,787,353,991	2,418,135,982	2,355,148,236
05	Hong Kong	365	4,361,848,910	1,695,540,203	1,883,945,651
06	British Virgin Islands	260	2,766,568,591	1,038,768,597	1,228,728,662
07	France	170	2,188,897,993	1,332,391,280	1,044,194,345
08	Holland	62	2,014,219,210	1,243,770,774	1,746,292,712
09	USA	279	1,874,158,897	1,091,620,293	724,400,074
10	Malaysia	189	1,578,252,072	712,343,595	816,167,426
	Sum up	4,967	42,913,148,788	18,893,824,134	20,169,619,668
	Others	1,293	10,560,209,570	4,753,112,831	5,409,348,678
	Total	6,260	53,473,358,358	23,646,936,965	25,578,968,346

Source: Presentation on Business and Investment in Vietnam by Dr. Nguyen Thi Bich Van – Deputy Director General of Foreign Investment Agency – The Ministry of Planning and Investment of Vietnam.

As empirically presented above, FDI inflows in Vietnam are estimated as a means to meet the requirement capital as well as to transfer new technologies during their transitional periods as argued by the Neoclassical model that the country is further promoting FDI for the sectors in high technology and information technology, new materials and new energy, vegetation and live stock breeding, farming and processing agricultural, forestry, and aqua-cultural products, infrastructure development, healthcare and education. Take the excellent example of Intel Cooperation U.S.A with its expansion in capital up to US\$ 1 billion from its original capital at US\$ 300 million as announced in

Nov 2006 for the Ho Chi Minh City-based factory³⁸. Therefore, FDI has a positive impact on economic growth of Vietnam with capital and employment factors combined.

Regardless of the current global financial crisis, Vietnam remains a stable environment for FDI as Prime Minister (PM) Nguyen Tan Dung made a statement at Boao Forum for Asia³⁹ as follows:

Vietnam will remain a dynamic economy and stable destination for investors, despite the global financial crisis, said Prime Minister Nguyen Tan Dung at the Bo'ao Forum for Asia (BFA) in China last week. The PM said Vietnam had grown 6.2 percent in 2008, down from 8.2 percent in 2007, and has political and economic stability that is a strong base for inward investors. In 2008, foreign direct investment reached US\$64 billion, three times more than in 2007. Addressing the closing event of the three-day summit on April 19 in Hainan Province, PM Dung asserted that "The BFA is an ideal setting for Asian politicians, academics and businesspeople to share experiences and ideas for effective regional cooperation. Asia's traditional values, lessons learnt from the East Asia economic crisis in the late 1990s, and strong determination would help the region to become a "new driving force" for the world's economic development, said PM Dung. In order to improve the economic situation, Vietnam will closely work with Asian to boost regional cooperation, especially in

³⁸ Source: <http://www.intel.com/pressroom/archive/releases/20061110corp.htm>

³⁹ Boao Forum for Asia (Chinese: 博鳌亚洲论坛; pinyin: Bó'áo Yàzhōu Lùntán), abbreviated as **BFA**, is a non-governmental, not-for-profit international organization modelled after the World Economic Forum in Davos, Switzerland. As a non-government, non-profit international organization, Boao Forum For Asia (BFA) is a prestigious forum for leaders in government, business and academia in Asia and other continents to share visions on the most pressing issues in this dynamic region and the world at large. The Forum is committed to promoting regional economic integration and bringing Asian countries even closer to their development goals. Initiated in 1998 by Fidel V. Ramos, former President of the Philippines, Bob Hawke, former Prime Minister of Australia, and Morihiro Hosokawa, former Prime Minister of Japan, Boao Forum for Asia was formally inaugurated in February 2001. The founding of BFA was driven by the People's Republic of China and founded by 26 Australasian states on 27 February 2001. The organisation held its first meeting from April 12-13, 2002. It has its fixed address in Bo'ao, Hainan, China, although the Secretariat is based in Beijing. The BFA holds a high-level annual forum for government, business, experts, and scholars at Boao, with the focus of discussion on economics, integration, cooperation, society, and environment.

Available at: http://en.wikipedia.org/wiki/Boao_Forum_for_Asia

the Greater Mekong Sub-region (GMS). It will speed up the construction of economic corridors and help realize the GMS Agreement on cross-border transportation⁴⁰.

As argued by the Neo-classical model, privatization is another area for developing countries to rely on achieving economic growth. How does Vietnam carry out the process of privatization?

4.1.3. Privatization

As mentioned earlier, Vietnam has realized the importance on privatization attached to economic development. Vietnam has shown its positive manner in the process of facilitating the development of privately-owned enterprises (POE) and reforming state-owned enterprises (SOE).

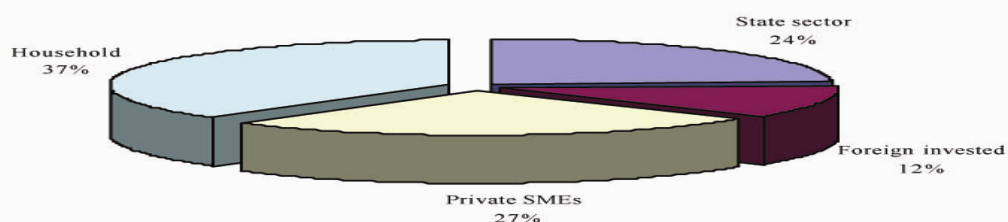
Table 6 Private Sector's Share in 1998 GDP (Percent)		
	<i>Total GDP</i>	<i>Manufacturing GDP</i>
State Sector	49	54
State-Owned Enterprises	n.a.	n.a.
Private Sector		
Foreign Invested Sector	10	18
Domestic Private Sector	41	28
<i>Of which</i>		
Household Enterprises/ Farmers	34	18
Private SMEs	7	10
<i>Source: GSO, Statistical Year Book.</i>		

As stated in “An Informal Economic Report of the World Bank Consultative Meeting Group for Vietnam, Ha Noi, December 14-15, 1999”, there were some key factors about the Private Sector in Vietnam : The share of the private sector in total GDP

⁴⁰ Available at : <http://www.vietnewsonline.vn/News/Politics/5883/Vietnam-PM-reassures-foreign-investors.htm>

in 1999 was 51%. During the 1995 – 1998 period, the domestic private sector grew at 9% per year. Less than half of manufacturing GDP was produced by private firms, but the share was increasing, with the domestic private sector dominating that share. Private Small and Medium Sized Enterprises (SMEs) in manufacturing, especially the larger ones, were highly export-oriented. Foreign invested enterprises had an important role to play for economic development by employing 300,000 workers. The domestic private sector was by far the most labor-intensive. Under this condition, Vietnam had been actively carrying out the development of its private sector with very encouraging results: (1) For six years of development, there were 180.000 new enterprises being established with capital of US\$ 15 billion from 2000 to 2005; (2) The number of private enterprises registered for export-import trade was increased by 5 times up to 20,000 by 2005; (3) Private sector still enjoyed the highest growth and increasing shares in the national economy: 48.5 % in total GDP.

Figure 8 Industrial Employments by Sector in the period 1997 – 1998



Source: GSO: Vietnam Living Standard Study 2, 1999

The Enterprise Law, taking effect in 1999, has also been amended quite a number of times. It has been improved a lot with business registration simplified considerably by abolishing thousands of sub-licenses; improving services at business registration offices;

clarifying requirements; and disseminating clear information to businesses on their rights and obligations in comparison with high costs and complicated process that a potential business had to submit 20 different type of documents, get 30 seals, wait for 3 months, and pay about US\$ 700 for a licensing process in addition to more sub-licenses being required for actual activities as applied by the Enterprise Law before 1999.

Private enterprises, whose activities were negligible in 1993, now account for over half of the investments made each year. The equitization process cut the number of state-owned enterprises by more than half, from 3786 to 1720, over the past nine years, although not across all sectors. This has created increased space for the expansion of private firms. Large state-owned enterprises and state-owned commercial banks are now lined up for equitization, whereas remaining ownership rights by the state are being transferred out of ministries and provinces to avoid the conflict of interest between ownership and regulation. As the private sector expands rapidly, both domestic and foreign-invested firms have connected solidly with global markets. Private firms now contribute 65 percent of manufactured products and over 70 percent of non-oil exports. Vietnam is more and more an integral part of international production and distribution chains⁴¹.

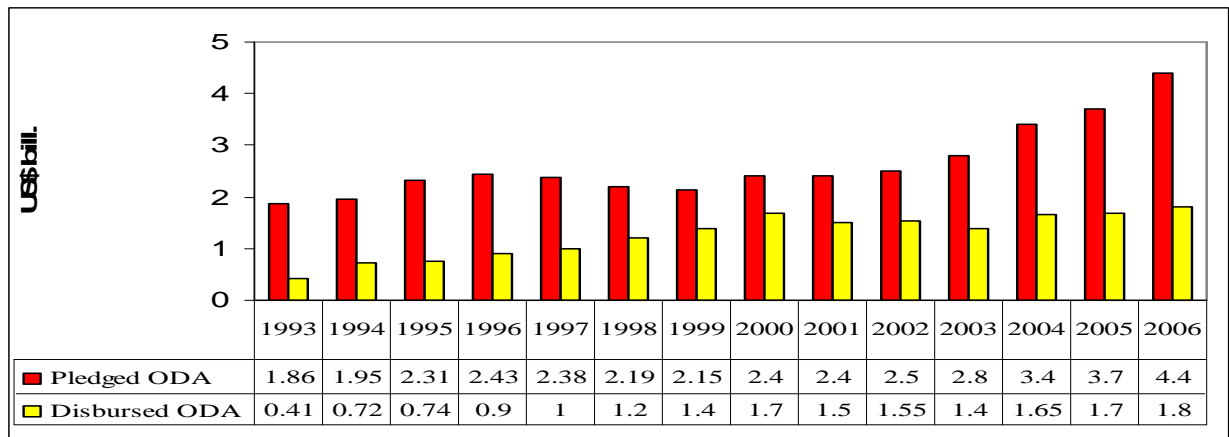
4.1.4. Official Development Assistance

The fast-growing economic development of Vietnam is also partly thanks to sources of Official Development Assistance, commonly known as ODA. The country has been receiving from donor countries and multilateral organizations. Simply put by

⁴¹ IDA at work: Vietnam – Laying Foundation for Steady Growth “ The private sector has emerged as the driver of growth, available at: <http://siteresources.worldbank.org/IDA/Resources/IDA-Vietnam.pdf>

Classical and Neo-Classical Theories, ODA is provided to cover three gaps: Savings – Investment Gap; Foreign Exchange Gap; Technological Gap. ODA has contributed to 11% of Vietnam’s investment and 17% of government investment: Japanese ODA accounted for 28.8% of total committed ODA and 36.2% of disbursed ODA. Japanese ODA has contributed to 4% of Vietnam’s investment and 6.2% of government investment. Sectoral contribution of ODA includes: Transportation, Power generation, Education, Urban Infrastructure and hence helped to attract FDI Factually. Vietnam has been receiving a considerable amount of ODA as shown in the below figure⁴².

Figure 9 A Glimpse of ODA in Vietnam from 1993 to 2006



In 2007, international donors pledged to offer Vietnam nearly 4.45 billion U.S. dollars in official development assistance (ODA), up from 3.7 billion dollars in 2006. This time, they have committed a record level of ODA for Vietnam, which "proves the close cooperation between the Vietnamese government and donors," Vietnamese Deputy Prime Minister Pham Gia Khiem said at the 13th Consultative Group (CG) Meeting,

⁴² Predictability and Stability of ODA Flows - The Case of Vietnam by Dr. Pham Hoang Mai – Head of Japan and Northeast Asia Division – Foreign Economic Relations Department – Ministry of Planning and Investment of Vietnam, www.un.org/ecosoc/newfunc/3.%20Viet%20Nam%20-%20Pham%20Hoang%20Mai.ppt

adding that the government has pledged to effectively use the financial assistance. Of the pledged amount, 1.14 billion dollars came from the Asian Development Bank, 890 million dollars from the World Bank, 890.3 million dollars from Japan, and 370.4 million dollars from France. Vietnamese Minister of Planning and Investment Vo Hong Phuc said Vietnam will use soft loans among the pledged ODA to finance projects on developing infrastructure works, including roads, seaports, airports, power plan, and water supplies.

Undoubtedly, the above achievements in economic development have come from the country's active participations in the regional and global economic institutions, namely: the Association of South East Asia Nations (ASEAN)⁴³, Asia-Pacific Cooperation (APEC)⁴⁴, and the World Trade Organization (WTO)⁴⁵. In short, these are the factors that have led to economic development.

⁴³ The Association of Southeast Asian Nations or ASEAN was established on 8 August 1967 in Bangkok by the five original Member Countries, namely, Indonesia, Malaysia, Philippines, Singapore, and Thailand. Brunei Darussalam joined on 8 January 1984, Vietnam on 28 July 1995, Lao PDR and Myanmar on 23 July 1997, and Cambodia on 30 April 1999. As of 2006, the ASEAN region has a population of about 560 million, a total area of 4.5 million square kilometers, a combined gross domestic product of almost US\$ 1,100 billion, and a total trade of about US\$ 1,400 billion, available at: <http://www.asean.org/64.htm>.

⁴⁴ Asia-Pacific Economic Cooperation, or APEC, is the premier forum for facilitating economic growth, cooperation, trade and investment in the Asia-Pacific region. APEC is the only inter governmental grouping in the world operating on the basis of non-binding commitments, open dialogue and equal respect for the views of all participants. Unlike the WTO or other multilateral trade bodies, APEC has no treaty obligations required of its participants. Decisions made within APEC are reached by consensus and commitments are undertaken on a voluntary basis. APEC has 21 members - referred to as "Member Economies" - which account for approximately 40.5%¹ of the world's population, approximately 54.2%¹ of world GDP and about 43.7%² of world trade. APEC's 21 Member Economies are Australia; Brunei Darussalam; Canada; Chile; People's Republic of China; Hong Kong, China; Indonesia; Japan; Republic of Korea; Malaysia; Mexico; New Zealand; Papua New Guinea; Peru; The Republic of the Philippines; The Russian Federation; Singapore; Chinese Taipei; Thailand; United States of America; Viet Nam, available at: http://www.apec.org/apec/about_apec.html

⁴⁵ The World Trade Organization (WTO) is the only global international organization dealing with the rules of trade between nations. At its heart are the WTO agreements, negotiated and signed by the bulk of

4.2 Joining ASEAN

With the withdrawal of Vietnamese volunteer troops from Cambodia in September 1989, and the conclusion of the Paris Peace Accords in October 1991, the normalization of relations between ASEAN and Vietnam proceeded. Detecting genuine changes in Hanoi's domestic and international priorities, ASEAN became more proactive in engaging Vietnam with a view to admitting the country into the ranks of the organization. In 1991, for example, Malaysian Prime Minister Mahathir Mohamad stated that differences in socio-political systems between Vietnam and the ASEAN states would not prevent it from joining the Association. ASEAN countries thought that it was necessary to bring Vietnam into the organization in due course for the below reasons.

Firstly, with the collapse of communism in Eastern Europe and the Soviet Union, it seemed an appropriate time to reach out to its erstwhile opponent and end the ideological divisions engendered by the Cold War. From 1991 (the year the Soviet Union collapsed) to 1995 (the year Vietnam joined ASEAN), Vietnam managed to find new sources of aid, trade and investment to replace that lost from the Soviet bloc, when Vietnam faced severe economic difficulties and resultant political challenges to regime legitimacy, and when the ASEAN states' economic success stories had become widely apparent, the Vietnamese leadership was more willing to accept new thinking and learn from non-socialist developmental models. As a result, joining ASEAN would facilitate a

the world's trading nations and ratified in their parliaments. The goal is to help producers of goods and services, exporters, and importers conduct their business, available at: http://www.wto.org/english/thewto_e/whatis_e/whatis_e.htm

smooth transition to a market economy. In November 1994, former Deputy Foreign Minister Vu Khoan wrote as follows:

With the October 1991 Paris Agreement on the overall political solution to the Cambodia problem, the key obstacles to Vietnam-ASEAN relations over the last 10 years was removed. Relations between Vietnam and ASEAN members could thus rapidly develop bilaterally and multilaterally. In other words, membership of ASEAN did not radically alter the dynamics of Vietnam-ASEAN cooperation⁴⁶.

According to Gareth Porter⁴⁷, former Foreign Minister of Vietnam, Nguyen Co Thach, was among the first Vietnamese leaders to study the merits of the market. Porter observed that the foreign minister utilized this new knowledge to initiate debate in Vietnam on the need for coexistence between capitalist and socialist systems and participation in the global capitalist economy. This led to the adoption of a resolution at the Sixth Communist Party of Vietnam's (CPV) Central Committee Plenum in July 1984 which officially laid down the task of actively participating in the global capitalist system. The resolution continued to serve as one of the most important documents concerning the policy of economic reform that was officially adopted by the CPV Sixth National Congress in 1986. The CPV Political Report argued: The scientific and technological revolution, the globalization of production forces, and the emergence of a single world market are the major characteristics of our era, forcing all the countries to readjust their economies in order to seek and protect their optimal niches in the international division of labor. And the internationalization of production forces has led to the inevitable need for economic cooperation and peaceful coexistence among

⁴⁶ Nguyen Vu Tung, "Vietnam's Membership of ASEAN: A Constructivist Interpretation", *Contemporary Southeast Asia* Vol. 29, No. 3 (2007), pp. 483–505, © 2007 ISEAS, http://www.viet-studies.info/kinhte/VN_Asean_JSEAS.pdf

⁴⁷ Porter, Gareth. "The Transformation of Vietnam's Worldview: From Two Camps to Interdependence". *Contemporary Southeast Asia* 12, no. 1 (June 1990): 1 – 19

countries of different political systems⁴⁸. Vietnam was admitted into this regional bloc as an official member in July 1995.

Secondly, as ASEAN was eager to enlarge the organization to enable it to speak for the whole of Southeast Asia, Vietnam seemed to provide a good starting point for the subsequent entry of Laos, Myanmar and Cambodia. As a result, ASEAN would play a pivotal role in ensuring peace, stability and, to a lesser extent, prosperity in Southeast Asia and a larger role in the Asia-Pacific region.

Thirdly, Vietnam's membership to ASEAN has helped secure the legitimacy of the CPV as it has been able to bring about peace, stability and prosperity to Vietnam in the aftermath of the Cold War. As Prime Minister of Vietnam, Nguyen Tan Dung, said,

With the cooperation with ASEAN, we can further consolidate an environment of peace and stability, continuously expand multifaceted cooperation with regional countries, especially in economic terms, and enhance Vietnam's international standing, creating more conditions for Vietnam deeper integration into the Asia Pacific and global economies.

The table below shows trading activities between Vietnam and ASEAN from 1995 to 2004⁴⁹:

⁴⁸ Nguyen Vu Tung, " *Vietnam's Membership of ASEAN: A Constructivist Interpretation*", Contemporary Southeast Asia Vol. 29, No. 3 (2007), pp. 483–505, © 2007 ISEAS, http://www.viet-studies.info/kinhte/VN_Asean_JSEAS.pdf

⁴⁹ Nguyen Vu Tung, " *Vietnam's Membership of ASEAN: A Constructivist Interpretation*", Contemporary Southeast Asia Vol. 29, No. 3 (2007), pp. 483–505, © 2007 ISEAS, http://www.viet-studies.info/kinhte/VN_Asean_JSEAS.pdf

Table 7 Trade Turnover between Vietnam and Other ASEAN Countries

Year	Exports (US\$ Billions)		Imports (US\$ Billions)		Total (US\$ Billions)		Balance of Trade (US\$ Billions)	
(1)	(2) Turnover	(3) %	(4) Turnover	(5) %	(6) Turnover	(7) %	(8) Turnover	(9) %
1995	1,112	20.4	2,378	29.1	3,490	23.9	(-1,266)	46.7
1996	1,364	18.8	2,788	24	4,152	33.4	(-1,424)	36.6
1997	1,911	20.8	3,166	27.3	5,077	25.5	(-1,255)	52.1
1998	2,372	25.3	3,749	32.6	6,122	29.7	(-1,377)	64.3
1999	2,463	21.3	3,288	28	5,751	24.9	(-0,825)	41.1
2000	2,612	18	4,519	29	7,131	23.7	(-1,907)	165.2
2001	2,551	17	4,226	26.1	6,777	21.8	(-1,675)	147.5
2002	2,426	14.5	4,770	24.2	7,196	19.7	(-2,344)	77.8
2003	2,958	14.7	5,957	24	8,915	19.8	(-2,999)	62.5
2004	3,874	14.6	7,766	24.7	11,640	19.8	(-3,892)	81.1

Source: National Committee for International Economic Cooperation at <http://www.nciec.gov.vn/index.nciec?68>

(3) Vietnam's exports to ASEAN countries as a percentage of its total foreign

(5) Vietnam's imports from ASEAN countries as a percentage of its total imports

(7) Vietnam's trade with ASEAN countries as a percentage of total foreign trade

(9) Vietnam's trade balance with ASEAN countries as a percentage of total foreign trade.

In 1994, ASEAN countries accounted for 30 per cent of Vietnam's total foreign trade, and 30 per cent of foreign direct investment (FDI). Indeed the level of economic interaction between Vietnam and its ASEAN partners shrank after it had joined the organization with the onset of the 1997 Asian financial crisis. In 2003, trade with ASEAN countries dropped to 20 per cent of Vietnam's total trade. Investments from ASEAN in 1997 accounted for 23.4 per cent of total foreign investments in Vietnam. This figure fell to 17.6 per cent in 1999 rising to about 20 per cent by 2007. The table does not really see the real benefits from joining ASEAN. If we take a closer look at the agricultural sector, however, Vietnam's participation in ASEAN shows considerable benefits.

In 2003, Vietnam's rice exports to ASEAN reached US\$388.7 million, accounting for 66.4 percent of the total agricultural export value of the country to the region. Coffee,

rubber and peanuts were the next largest agricultural exports to ASEAN. Each of them accounted for around 6.5-8 percent of the total agricultural export value of the country to ASEAN in 2003. The agricultural exports of ASEAN to Vietnam, however, have been modest. The country imported agricultural inputs (mainly urea fertilizer) rather than agricultural products. In 2005, Vietnam imported approximately 1.7 million tons of fertilizer, in which urea contributed 550,000 tons worth US\$ 142 million from ASEAN.

Vietnam can further expand its agricultural exports to ASEAN after the full Common Effective Preferential Tariffs Agreement, CEPT, has been completed, or beyond 2010. This is because farm products in the Sensitive List (SL) of many enlarged ASEAN countries are major agricultural exports of Vietnam⁵⁰. For example, rice is on the SL for Indonesia, Laos, Myanmar, Malaysia, and the Philippines, while raw and primary processed coffee is on the list for Brunei, Laos, Myanmar, Malaysia and Thailand. As long as tariff rates are reduced to 0-5 percent for these products, export opportunities for Vietnam will be widened in ASEAN markets⁵¹.

To conclude, Vietnam has benefited immensely from joining ASEAN and derives a great deal of satisfaction from being a member for the following factors: (1) ASEAN is a large market with around 500 million people; (2) ASEAN is the region very close in terms of geographical distance; (3) The people in the region have similar food

⁵⁰ The CEPT is the mechanism by which tariffs on goods traded within the ASEAN region, which meet a 40% ASEAN content requirement, will be reduced to 0-5% by the year 2002/2003 (2006 for Vietnam, 2008 for Laos and Myanmar, and 2010 for Cambodia). The tariff reductions are moving ahead on both the "fast" and "normal" tracks. Tariffs on goods in the fast track were largely reduced to 0-5% by 2000. Tariffs on goods in the normal track will be reduced to this level by 2002, or 2003 for a small number of products. Currently, about 81% of ASEAN's tariff lines are covered by either the fast or normal track, available at: <http://www.us-asean.org/afta.asp>

⁵¹ Tran Van Hoa and Charles Harvie, "Regional Trade Agreements in ASIA": Agricultural Issues in an Enlarged ASEAN: the case of Vietnam, p.108 – p.116

consumption habits; and (4) The average income level in ASEAN countries is not very high compared to other regions. More importantly, Vietnam's membership to ASEAN paved the way for the country to join other regional and global economic institutions⁵².

4.3 Joining APEC

Three years after joining ASEAN, Vietnam made another successful move to join a larger regional body economically and politically referred to as Asia –Pacific Economic Cooperation (APEC) in November 1998 and showed itself to be a very active and potential member by hosting APEC 2006 Summit in the capital of Hanoi.

APEC member economies are now the largest investors in Vietnam, representing 65.6% of the total investment capital. Of the 14 countries and territories investing more than US\$ 1 billion each in Vietnam, 10 are APEC members, with a combined investment capital of US\$ 39.5 billion, accounting for 62.7% of the total investment capital. The biggest official development assistance for Vietnam also comes from APEC, with Japan being the largest donor. Up to 72.8% of Vietnam's exports come to APEC members. Vietnam's imports from APEC member economies are the biggest, worth US\$ 25.3 billion, or 79.2% of the total import spending. Of more than 2.9 million international tourists coming to Vietnam in 2004, 2.2 million came from APEC member economies, accounting for 75.7% of the total. The APEC 2006 summit will be the biggest international event to be held in Vietnam. The week-long gathering of the leaders of 21 member economies from November 12 to 19 in Hanoi will be the key activity. Vietnam's priorities for APEC 2006 would be APEC's main pillars and would also be the continuation of the themes of previous and succeeding summits⁵³.

According to then Deputy Prime Minister Vu Khoan, Chairman of the APEC 2006 National Committee, hosting the Asia-Pacific Economic Forum 2006 would serve as a valuable opportunity for Vietnam. First, Vietnam would make positive contributions to the development of APEC, making it more substantive and efficient. Second, Vietnam

⁵² Tran Van Hoa and Charles Harvie, “Regional Trade Agreements in ASIA”: Agricultural Issues in an Enlarged ASEAN: the case of Vietnam, p.108 – p.116

⁵³ <http://www.vir.com.vn>; <http://vibforum.vcci.com.vn>; VIR-news and The Saigon Times Weekly on 16th - 19th Feb, 2006

would further nurture an image of dynamism, hospitality and cultural identity of the country. Third, through APEC, Vietnam would promote relations with all other APEC members and accumulate more support from the forum's members for the country's bid to join the World Trade Organization. In addition, Vietnamese enterprises would have the chance to meet foreign partners and develop business activities⁵⁴.

Trade liberalization is the most important content of APEC. As the host country, Vietnam would help APEC participate more actively in the process. At the Doha round in Hong Kong in 2005, some initial results were attained. However, the round was not yet completed. APEC 2006 focused on the Doha negotiations. Though without pre-determination, APEC 2006 had a certain relation to Vietnam's accession to WTO. The negotiation on Vietnam's WTO membership was proceeding very well. Vietnam had just concluded the negotiation with New Zealand. Of the APEC members, there remained only two members - the US and Mexico - who had yet to conclude WTO bilateral negotiations with Vietnam. Progress had also been made recently in the bilateral talks with the United States. Hosting APEC 2006 was a driving force for Vietnam in the process. In addition, as a less developed country among APEC members, Vietnam expected that by developing trade and investment, co-operating in economy, science and technology with other APEC members, it could develop faster. The gap between Vietnam and other APEC members would be narrowed down. At APEC 2006, Vietnam held major international events to further promote the country's image to stimulate foreign investment attraction and tourism.

⁵⁴APEC 2006 presents a big opportunity for Vietnam's international integration APEC and Vietnam-APEC 2006 summit, available at: http://www.mofa.gov.vn/en/tt_baochi/nr041126171753/ns060509095637

4.4 Joining WTO

Joining APEC actually was not a final goal for Vietnam to fully integrate into the world's economy. In order to trade further, Vietnam participated in the World Trade Organization (WTO) as the 150th member on November, 7th, 2006 after more than ten years of negotiations with other active members of the body. This is the only way out for Vietnam to freely trade with the rest of the world as Dr. Vo, Tong Xuan, President of An Giang University, Long Xuyen, Vietnam, has indicated that joining the world trade body will create opportunities for the agricultural sector, the industrial sector, and the service sector to have further access to the world market. More FDI projects will be operated in industrial and manufacturing establishments nationwide. More foreign-based service industries in such fields as information and communications technology, advertising, foreign financial services, and advisory and auditing services will be established⁵⁵.

WTO accession can be expected to facilitate further global integration over the medium term, improving Vietnamese exporters' access to foreign markets. This should be particularly beneficial for the key textile and footwear export industries because Vietnam can now compete on an equal footing with other WTO member countries on these industries. The benefits to export performance, however, could take some time to be fully realized... Import barriers in most other sectors will also decline, albeit in a more gradual fashion. Vietnam has committed to bound tariff rates on most products ranging from zero to 35 percent, although tariffs on cars and motorbikes are to remain somewhat higher, and certain sensitive products (such as eggs, tobacco, sugar, and salt) will be

⁵⁵ Vietnam and WTO by Dr. Vo Tong Xuan, available at: <http://www.ueh.edu.vn/tcptkt/english/2003/thang12-03/votongxuan.htm>

further protected with tariff quotas. Reductions in most bound rates— from 17.4 percent on average in 2007 to 13.6 percent by 2019—are to be phased in over periods of up to 12 years⁵⁶.

From a broader perspective, WTO accession should have largely positive macroeconomic effects. While the reduction in import tariffs can be expected initially to lower import duty receipts by some 0.3 to 0.6 percent of GDP, this should be tempered over time as the removal of trade barriers spurs import growth. With exports continuing to grow rapidly as access to foreign markets improves, and with continued dynamism of foreign investment, the overall balance of payments should remain strong. Increasing access to cheaper imports should also help contain inflation, which, at 7.5 percent in 2006, is still higher than in other emerging markets in Asia. IMF staff estimates (Tumbarello, 2007) also point to welfare gains from trade liberalization, rising over time to reach some 0.6–1.2 percent of GDP a year by 2019.

Vietnam is also likely to derive important productivity gains from trade liberalization and other market-friendly reforms to be introduced in the context of WTO accession. A new law providing a common regulatory framework for domestic and foreign enterprises has been introduced, and Vietnam has also moved to harmonize its rules on trading rights for foreign and domestic traders. WTO accession could also serve as a catalyst to promote restructuring of unprofitable state-owned enterprises (SOEs). Increased competition with foreign banks can also be expected to prod the government to

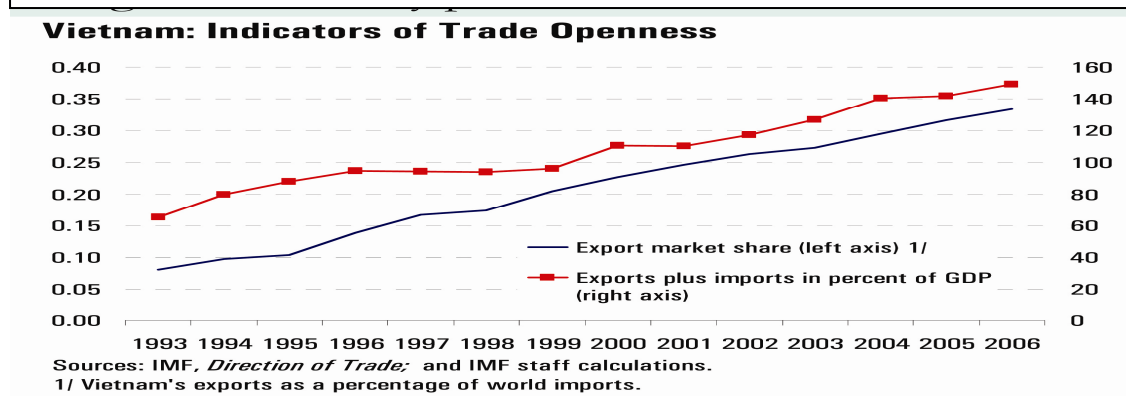
⁵⁶ Regional and Economic Outlook for Asia and Pacific – Issue April 2007, a Publication of the International Monetary Fund, available at: <http://www.imf.org/external/pubs/ft/reo/2007/APD/ENG/areo0407.pdf>

speed up the restructuring of state-owned commercial banks (SOCBs) and the implementation of its banking sector reform roadmap. These reforms should help increase the efficiency and profitability of investment. Indeed, the prospect of accession has already bolstered the investment climate, and. With FDI approvals reaching a record \$10 billion in 2006, Vietnam was well-placed to take full advantage of its ongoing global integration to sustain the rapid pace of its economic growth.

WTO accession is, of course, not a panacea and presents challenges as well as opportunities. Heavily-protected industries and SOE sectors, notably auto-assembly and motorbike plants, and the financial sector, will need to undertake significant reforms to remain viable. In this process, there may be a compression of profit margins and, possibly, labor-shedding or even bankruptcies in loss-making SOEs and declining industries. Although adverse effects should be manageable as long as more efficient sectors offer growing employment opportunities, it will be important to put in place adequate retraining programs and social safety nets to minimize dislocations.

The authorities will also need to resist the temptation to support financially those industries with declining profitability. Such support, which could take the form of fiscal incentives or directed lending by state-owned banks, could turn out to be very costly especially if, in the end, these industries are found to be non-viable. The below figure serves as an illustration for Vietnamese economic perspectives from joining the world trade body:

Figure 10 Vietnam: Indicators for Trade Openness



Source: Regional and Economic Outlook for Asia and Pacific – Issue April 2007 – IMF

Vietnam's participation in the world trade body has significant impacts on the region, and the rest of the world as thoroughly analyzed in “ Regional and Economic Outlook for Asia and Pacific – Issue April 2007 – IMF”⁵⁷ as below:

For the region, the NIEs⁵⁸ are likely to gain from Vietnam's accession, as they have invested heavily in the country and do not have the same comparative advantage as Vietnam in their exports. However, major exporters of textiles and garments (such as Bangladesh, Cambodia, the Philippines, and Sri Lanka) may face new competitive challenges as the end of the textile quota implies increased market access of Vietnamese products in the United States. In addition, as Vietnamese producers penetrate a broader range of manufacturing sectors, including low-end electronics, the rest of the ASEAN-5⁵⁹

⁵⁷ Regional and Economic Outlook for Asia and Pacific – Issue April 2007, a Publication of the International Monetary Fund, available at: <http://www.imf.org/external/pubs/ft/reo/2007/APD/ENG/areo0407.pdf>

⁵⁸ “Newly industrialized economies (NIEs)” refers to Hong Kong SAR, Korea, Singapore, and Taiwan Province of China.

⁵⁹ “ASEAN-5” refers to Indonesia, Malaysia, the Philippines, Thailand, and Vietnam.

are likely to come under increasing pressure to move towards the production of higher value-added products. With respect to foreign investment, it is difficult to ascertain how WTO membership will affect FDI in other Asian countries. Vietnam has already established itself as an appealing destination for foreign investors prior to accession, including in the information technology sector. Also, the reduction of its MFN tariffs, together with improved access to foreign markets, should enhance its integration into regional production networks. Cost reductions from increasing FDI in Vietnam could thus improve the profitability of regional networks.

For the rest of the world, industrial countries are likely to accrue considerable net gains from Vietnam's WTO accession. Consumers in the United States, European Union (EU), and Japan⁶⁰ can be expected to reap growing gains in welfare from the continuing integration of Vietnam's productive and low-cost labor force into the global economy. In addition, as Vietnam transitions towards middle income status, there should be increasing scope for an expansion of industrial countries' exports in technology intensive manufactures and high-end services (e.g., finance), in which advanced economies still have a comparative advantage. While preliminary data suggest that, in the short run, FDI is set to increase most strongly in the sectors in which import barriers will fall most rapidly (as in textiles), over time, it is likely that there will also be growing foreign investor interest in higher-value-added manufacturing and services sectors.

The above foreign policy with trading activities has brought significant impacts on both economic development and human development of Vietnam as theoretically

⁶⁰ The U.S., EU, and Japan are major net purchasers of textiles, footwear, and other low-cost manufactures from Vietnam.

applied from some of the most relevant frameworks from the literature “ Overview – Attacking Poverty: Opportunity, Empowerment, and Security”, concretely: (1) A strategy for poverty reduction - In the way of promoting opportunity with the emphasize placed on the centrality of materials, including jobs, credit, roads, electricity, markets for their produce, and the schools, water, sanitation, and health services that underpin the health and skills essential for work; (2) From strategy to action – Developing countries need to prepare their own mix of policies to reduce poverty, reflecting national priorities and local realities. Choices will depend on the economic, sociopolitical, structural, and cultural context of individual countries – indeed, individual communities; (3) Expanding into international markets – International markets offer huge opportunities for jobs and income growth – in agriculture, industry, and services. All countries had major reductions in income poverty have made use of international trade”⁶¹.

4.5 Achievements in Human Development

Vietnam has been keen to work closely with multilateral international development agencies, such as IMF, WB, and UNDP for human development. In this sense, poverty reduction, education development, and health development have emerged as major tasks for human development of Vietnam. Especially, education and health are the two basic objectives of development; they are important ends in themselves. Health is central to well-being, and education is essential for a satisfying and rewarding life; both are fundamental to the broader notion of expanded human capacities that lie at the heart

⁶¹ Overview: Attacking Poverty: Opportunity, Empowerment, and Security, *World Development Report 2000 – 2001: Attacking Poverty*, pp 6 – 8, available at <http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTPOVERTY/0,,contentMDK:20194762~pagePK:148956~piPK:216618~theSitePK:336992,00.html>

of the meaning of development. At the same time, education plays a key role in the ability of developing country to absorb modern technology and to develop the capacity for self-sustaining growth and development. Moreover, health is a prerequisite for increases in productivity, while successful education relies on adequate health as well. Thus both health and education can also be seen as vital components of growth and development⁶².

This part of the thesis presents how Vietnam has been able to achieve poverty reduction, education development, and health development by working closely with and receiving strong supports from the UN development agencies for Vietnam's national development plans in these sectors.

4.5.1 Poverty reduction

Regardless of achievements in economic development as well presented above, Vietnam remains a poor country with low per capita income (per capita GDP is estimated at about US\$400 in the year 2000) and the poverty rate is still high. The Government of Vietnam recognizes this problem and believes that a strategy focused on achieving high and sustainable growth is a key to narrowing the economic development gap between Vietnam and other countries in the region and the world, while at the same time generating sufficient resources to raise the welfare and living standards of the people, as well as reduce poverty and create social equity. In order to maintain rapid and sustainable economic growth, and implement effectively the policy on poverty reduction, the

⁶² Michael P.Todaro and Stephen C. Smith, *Economic Development – Ninth Edition*, Pearson Addison Wesley, 2006, p.363.

Government of Vietnam developed the Comprehensive Poverty Reduction and Growth Strategy (CPRGS).

CPRGS is an action program that translates the Government's Ten-Year Socio-economic Development Strategy, Five-Year Socio-economic Development Plan as well as other sectoral development plans into concrete measures with well-defined road maps for implementation. The purpose of CPRGS is to achieve economic growth and poverty reduction objectives. CPRGS is closely related to the national annual socio-economic development plans and those plans developed by different ministries, agencies and sectors. The national annual socio-economic development plan that is passed by the National Assembly serves as a tool for bringing the policies and measures contained in the CPRGS into practice⁶³. This CPRGS, approved by former Prime Minister Phan Van Khai in November 2003, covers all general objectives, institutional arrangements, policies and solutions of the 10-Year Strategy and 5- Year Plan into detailed specific actions plans. In policy, the CPRGS has the following six parts:

Part I: Socio-Economic Setting, Current Poverty Situation, Achievements and Challenges.

Part II: Objectives and Tasks of Socio – Economic Development and Poverty Reduction for the Period up to 2005 and 2010.

Part III: Create Environment for Rapid and Sustainable Growth, and for Poverty Reduction.

Part IV: Large-scale Infrastructure Development for Growth and Reduction of Poverty.

Part V: Major Policies and Measures for the Development of Sectors and Industries to Ensure Poverty Reduction and Sustainable Growth.

Part VI: Mobilization of Resources for Growth and Poverty Reduction.

By definition of the World Bank, those living less than \$US 1 per day are considered as poor. More specifically, it is measured in dollars with the same purchasing

⁶³ The Comprehensive Poverty Reduction and Growth Strategy (CPRGS),p.2 and p.3, available at: http://siteresources.worldbank.org/INTVIETNAM/Overview/20270134/cprgs_finalreport_Nov03.pdf

power as in the US, commonly known as Purchasing Power Parity (PPP). However, poverty line in Vietnam cannot be based on this estimation, for goods and services are more expensive in the U.S. than those in Vietnam. In comparison, this measurement of \$US 1 per day is equivalent to 1/5 or 20 cents of a dollar. In fact, a new poverty line developed by the National Poverty Reduction Program is defined at different levels subject to specific areas/regions and to per capita income: VND 80,000 per month for island areas and rural mountainous areas, VND 100,000 per month for rural plain areas, and VND 150,000 per month in urban areas for 2001 – 2005 period (note: \$US 1 equivalent to VND 16,000 – exchange rate by Vietcombank). Poverty line in Vietnam was 58.1% in 1993.

The CPRGS of Vietnam requires a very large amount of government spending and other capital inflows from international borrowers and multilateral donors. To this end, the country has been working closely with the World Bank and the International Monetary Fund as agencies for development in the fight against poverty.

Since resuming its operations in the country in 1993, the Bank has provided three types of services to Vietnam: (1) design and finance development projects; (2) analytical work, policy advice, and technical assistance; and (3) donor dialogue facilitator. As of today, the Bank has supported more than 50 projects to help Vietnam fight poverty through finance for agriculture, infrastructure, health programs, schools, and other essential needs.

This part of the thesis, however, discusses only one part of the Bank's projects to Vietnam through Poverty Reduction Support Credits (PRSCs) in support of the country's

Comprehensive Poverty Reduction and Growth Strategy. Initially, PRSCs supported important reforms of Vietnam in trade integration with the global economy, private sector development and public finance management reform. The PRSCs have become the main vehicle for the Government and the donor community to discuss a wide range of policy reforms. The PRSCs not only concentrate on poverty reduction but also help Vietnam in a broad-based program to deal with difficulties faced by the country in transition to a market-based economy. In this connection, the country has been receiving in seven PRSCs from the Bank. Given below is a brief description of the 7 PRSCs.

Table 8: The Brief Description of the 7 Poverty Reduction Support Credits

Project(s)	Amount	Objectives/Benefits
PRSC 1 (June 2001)	US\$ 250 million	<ul style="list-style-type: none"> - Improve the climate for the private sector, thereby generating jobs and higher wages; - Reform State enterprises to improve efficiency and free up fiscal resources for poverty reduction program; - Reconstruct the banking system to reduce the risk of financial crisis, which could otherwise undermine poverty reduction efforts; - Integrate with the world economy to expand labor-intensive exports; and - Improve public expenditure management
PRSC 2 (June 2003) No-interest Loan	US\$ 100 million	<ul style="list-style-type: none"> - Strengthen competition in the economy, harden the budget constraint on state-owned enterprises, and level the playing field for the private sector, therefore leading to increased efficiency and job creation; - Promote investments in people through access by the poor to health care, more secure asset ownership in the form of land titles and greater role of the public involvement in environment management; and - Increase efficiency and accountability in public financial management and improve legal transparency and accessibility, thus laying the foundations for modern governance.

PRSC 3 (June 2004) No-interest Loan	US\$ 100 million	Help further reforms set out in the country's CPRGS in a plan to complete the transition to a market economy; make development inclusive, and to build a modern governance system.
PRSC 4 (June 2005)	US\$ 100 million	Support the country's broad-based reform program, including completion of the transition to a market economy, ensuring social inclusion and strengthening governance.
PRSC 5 (June 2006) No-interest loan	US\$ 100 million	<ul style="list-style-type: none"> - Help improve the regulatory framework for private development, and enhance transparency and accountability in state-owned enterprise operations and in the banking-sector; - Promote human development through upgrading the quality of education, especially in poor zones, promoting inclusive education for children living with disabilities, improving the access of the poor to health services, more sustainable management of natural resources; and - Build modern governance in public financial management reform and in public resource allocation.
PRSC 6 (June 2007)	US\$ 175 million	Promote business development; preserve social inclusion, better manage natural resources and the environment and to improve governance in support of Vietnam's efforts to become a middle-income country by the end of the decade.
PRSC 7 (June 2008) Estimated	US\$ 200 million Approximate	Aim at supporting the implementation of the Socio-Economic Development Plan (SEDP) 2006 - 2010

Source: The World Bank – Vietnam Poverty Reduction Support Credit Projects

As seen from the above table, the World Bank has sustained its credit supports to Vietnam given the country's steady performance in poverty reduction particularly and economic reform generally for development policy as commented by Klaus Rohland, former World Bank Country Director for Vietnam at the formal announcement of the approval for the Third Poverty Reduction Support Credit (PRSC 3),

The good macroeconomic situation and the continued progress in poverty reduction confirm that the overall development strategy of Vietnam is going well. Looking ahead the Government needs to continue its impressive reform program.

Issues surrounding the financial sector and State-Owned Enterprises should be high on the agenda.

The PRSCs worked for the CPRGS as a result in the country's decline in poverty rate down to 24.1 in 2004 from 28.9 percent in 2002, 37.4 percent in 1998, and 58.1 percent in 1993. In comparison between theory and practice related to poverty reduction strategy suggested by the Bank and planned by the Government, the items from the above table are well connected to those planned in the MDGs. In short, the campaign of poverty reduction has gone alongside the attacking poverty recommendation of the Bank and the MDGs.

Also, the Government of Vietnam has been cooperating with the IMF on the Poverty Reduction and Growth Facility (PRGF). This PRGF is the IMF's low-interest lending facility for low-income countries. In theory, the IMF established PRGF in September 1999 to make the objectives of poverty reduction and growth more central to lending operations in its poorest member countries. PRGF-supported programs are framed around comprehensive, country-owned Poverty Reduction Strategy Papers. These papers are prepared by governments with the active participation of civil society and other development partners. The PRGF has three key features: (1) The Principle of broad public participation and greater country ownership is central to the PRGF; (2) PRGF-supported programs reflect more closely each country's poverty reduction and growth priorities; and (3) PRGF-supported programs focus on strengthening governance in order to assist countries' efforts to design targeted and well-prioritized spending. In practice, the Executive Board of the International Monetary approved on April 2001 in principle a three-year arrangement for Vietnam under the PRGF in an amount of US\$ 368 million.

The first release of the loan under the PRGF was amounted to about US\$ 53. The PRGF loans carried an annual interest rate of 0.5 percent, and were payable over 10 years with a 5^{1/2} – year grace period on principal payments. As an illustration, the PRGF helps Vietnam to (1) Improve its competitiveness and attraction of foreign direct investment by pursuing further economic integration through implementing commitments with key trading partners. For example, Vietnam was committed to reduce tariffs under the ASEAN Free Trade Area on the majority of tariff lines to 20% by 2003 and to 0-5 percent by 2006; (2) Reform the banking sector, aimed at enforcing better lending discipline and transparency. In this way, each bank will undergo independent audits on international accounting standards by year end; and (3) Tighten monetary policy with interest rate policy to be made flexible and the exchange rate to be expectedly managed more flexibly.

The above explanation gives a greater role to market forces and minimizes administrative measures. The benefits brought about by the PRGF are significant as stated by Shigemitsu Sugisaki, Deputy Managing Director and Acting Chairman at the IMF's second review of Vietnam's PRGF Program on June 21, 2002 as follows:

The Vietnamese authorities have continued to make progress in implementing their three-year program, which seeks to improve competitiveness and spur investment in order to foster high growth and rapid poverty reduction. Economic performance under the first-year program was relatively strong and based on generally sound macroeconomic policies and progress in structural reforms... The authorities' Comprehensive Poverty Reduction and Growth Strategy has been prepared in a commendable participatory process. Its successful implementation will require careful prioritization and costing, strong expenditure management and monitoring, and a full assessment of the social impact reform.

More importantly, the CPRGS of Vietnam is in line with the MDGs⁶⁴. In this regard, Vietnam has received a very strong support from United Nations Development Programme (UNDP). Since 1993, UNDP has been helping the Government of Viet Nam with its poverty and hunger reduction strategies and programs in leveling the economic playing field through regulatory reforms to develop businesses that create domestic employment and unleash the capacity of local entrepreneurs. UNDP has been working closely with General Statistics Office (GSO) to improve its ability to collect and analyze poverty data. UNDP provides technical support to the Government on its national programs to improve the lives of people living in ethnic and mountainous regions of Viet Nam. UNDP brings together and shares lessons learned from all its policies and programs on issues such as gender, poverty targeting, decentralization and local governance, infrastructure and credit for the poor.

With Vietnam's efforts to integrate into the global economy as discussed earlier, Vietnam has new opportunities for growth, but new challenges for poverty reduction. In this setting, equitable growth, pro-poor policies and efforts to achieve the MDGs, remain at the core of UNDP's advocacy and programming in Vietnam — and an overarching

⁶⁴ The MDGs represent a global partnership that has grown from the commitments and targets established at the world summits of the 1990s. Responding to the world's main development challenges and to the calls of civil society, the MDGs promote poverty reduction, education, maternal health, gender equality, and aim at combating child mortality, AIDS and other diseases. Set for the year 2015, the MDGs are an agreed set of goals that can be achieved if all actors work together and do their part. Poor countries have pledged to govern better, and invest in their people through health care and education. Rich countries have pledged to support them, through aid, debt relief, and fairer trade. Available at: <http://www.undp.org/mdg/>

goal in UNDP-Vietnamese cooperation⁶⁵. Therefore, it is necessary to compare the MDGs and the Vietnamese achievements.

Table 9 The Millennium Development Goals and The Vietnamese Achievements

The Millennium Development Goals	The Vietnamese Achievements
<u>Goal 1</u> : Eradicate extreme poverty and hunger by half between 1990 and 2015	The poverty rate fell from 58.1% in 1993 to 24.1% in 2004 with nearly 60% of poor household moving out of poverty.
<u>Goal 2</u> : Achieve universal primary education by completing a full course of primary schooling from boys and girls by 2015	The complete rate of primary education (from first to fifth grades) rose to 99.82% in the academic year 2003-2004; particularly the rise was seen in the Central Highlands and the Red Mekong Delta.
<u>Goal 3</u> : Promote gender equality and empower women by eliminating gender disparity in primary and secondary education and in all levels of education by 2015	The literacy rate of over 10 year-old population was 92%, of which the rate for women was 89.3% and for men 95% in 2002. Disparities between enrolment of boys and girls had been reduced at all levels of education as of 2004: primary level (girls: 47.6%; boys: 52.4%); secondary level (girls:48.5%; boys: 51.5%)
<u>Goal 4</u> : Reduce by two-thirds of the under-five child mortality rate between 1990 and 2015	Particular attention has been paid to healthcare of mothers and children with encouraging results for the under-five mortality rate from 58% in 1990 to 31.5% in 2004; for the under-one mortality from 44.4% in 1990 to 18% in 2004.
<u>Goal 5</u> : Improve maternal health by reducing three -quarters the maternal mortality ratio between 1990 and 2015	Priority has been given to maternal healthcare during pregnancy and at delivery with the maternal mortality rate decreasing from 120/100,000 live births in 1990 to 85/100,000 live births in 2004.
<u>Goal 6</u> : Combat HIV/AIDS, malaria and other diseases by having halted or begun to reserve the spread by 2015	- <u>Combat HIV/AIDS</u> : very difficult with HIV cases of more than 15,000 each year in 2001-2004 found in all 64 provinces/cities (more financial investment : 45-50 VND billion) - <u>Combat Malaria</u> : effectively controlled between 1995 and 2004 with malaria case per 100,000 people decrease by 4.5 times

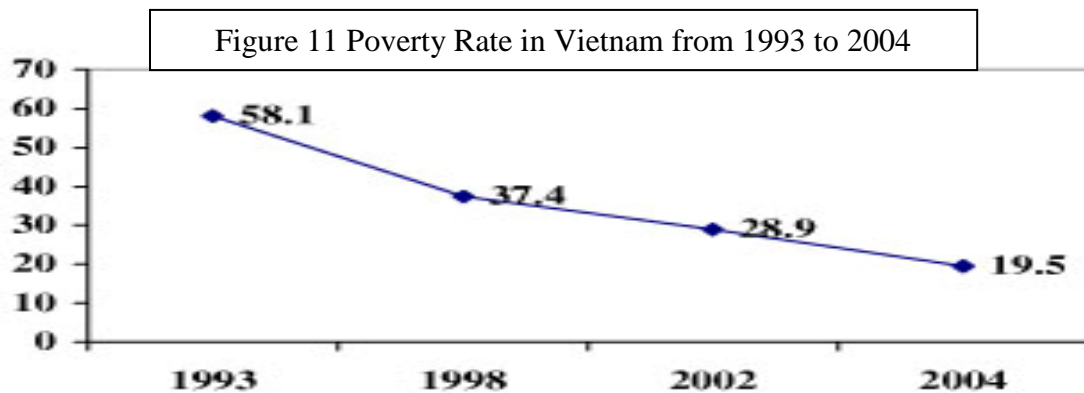
⁶⁵ The Comprehensive Poverty Reduction and Growth Strategy, Hanoi, November 2003, available at http://siteresources.worldbank.org/INTVIETNAM/Overview/20270134/cprgs_finalreport_Nov03.pdf

Goal 7: Ensure environmental sustainability by reserving the loss of environmental resources	- Increase forest cover from 27.2% in 1990 to 37% in 2004 through the Five Million Hectares Reforestation Program – Have more access to clean water for the rural population from only 28% in 1996 to 58% in 2004
Goal 8: Develop a global partnership for development	- Inflows of Official Development Assistance (ODA) and Foreign Direct Investment (FDI)

Source: UNDP Publication – Vietnam achieving the Millennium Development Goals

With a very strong support from UNDP, Vietnam has remarkably achieved the MDGs set by the United Nations. Though Vietnam is still faced with the threat of HIV/AIDS spread, the country is committed to staying firm on this course by investing more in prevention and treatment facilities as well as educational programs in order to raise the public awareness of this deadly disease.

With all efforts Vietnam made as seen from the empirical evidences, the World Bank estimates that 30 million people were lifted out of poverty within 10 years; the poverty rate fell down as below.



Source : Vietnam Poverty Update Report 2004

As mentioned earlier, Vietnam achieved the annual growth rate of GDP at 7.3 since 2001. Vietnam is now considered as a success story for poverty reduction as indicated by Mr. Ajay Chhibber, World Bank Country Director for Vietnam as below:

Although we have just arrived in Vietnam, we are very impressed by the initial results of the PRSC. With US\$150 million granted by the WB and US\$22 million provided by other donors in the first stage, now the program has so far received another credit loan of US\$175 million from the WB and US\$195 million from co-sponsors. The increase in the amount of aid as well as in the number of sponsors has proved that the international community strongly supports the Vietnamese government's socio-economic plan and poverty reduction work. The WB is expected to increase its contribution to the PRSC to US\$200 million.⁶⁶

The above achievements in MDGs and poverty reduction are also supported by the Vietnam' National Plans in education and health presented in the below parts.

4.5.2 Education development

Through implementation of the "open door" policy, the Vietnamese Government has been strengthening international cooperation in education, particularly the program "Education for All". International organizations, governments and non-government organizations have provided significant supports to Vietnam during the past decade. The focus of these supports has been on pre-primary education, on primary education, in the program of illiteracy elimination and post illiteracy elimination and in regular education. In the context of using resources provided by programs and projects, Vietnam has been utilizing the opportunities kindly provided by international support to achieve the objectives set by the program "Education for All"⁶⁷.

⁶⁶ Vietnam's success in poverty reduction and economic development, available at: http://www.mofa.gov.vn/en/nr040807104143/nr040807105039/ns071008104608?b_start=int=5

⁶⁷ Education for all for learning to live together: Development and Equity, available at <http://www.ibe.unesco.org/International/ICE/ministers/Vietnam.pdf>

At the World Education Conference in Dakar, Senegal in April 2000, all governments, including Viet Nam, and the international donor community adopted the "Dakar Framework for Action, Education for All: Meeting our Collective Commitments" and committed themselves to prepare and implement programs that were credible to achieve goals set in the "Dakar Framework for Action".

The Ministry of Education and Training of Vietnam, with technical assistance of UNESCO since late 2001, completed the preparation of the "National Education for All Action Plan 2003-2015" for Viet Nam. This Plan was approved by the Government on the 2nd of July 2003. The "National Education for All Action Plan 2003-2015" is, on the one hand, a government tool for adjusting policies at the macro level in the area of Education for All and a framework for provinces and cities to develop their respective provincial "Education for All" plans. On the other hand, this Plan is a framework for guiding international organizations, bilateral donors and NGOs' financial and technical support to Vietnam in order to accelerate and ensure the quality of Education for All activities. The "National Education for All Action Plan 2003-2015" reflects the realization of commitments that the Government of Viet Nam made at the Dakar Forum to prepare a good quality, credible and feasible action plan.

The Plan has identified general goals, specific objectives and targets for sub-sectors of Education for All in Viet Nam for the period 2003-2015, including early childhood care and education, primary education, lower secondary education and non-formal education. In addition, the Plan identifies action programs for achieving the objectives of each of the above components. Moreover, the action plan also forecasts

possibilities for resource mobilization from government, people as well as international support towards achieving Viet Nam's Education for All goals until 2015⁶⁸. Vietnam's EFA has the following targets⁶⁹ to achieve:

Target Group 1: Early Childhood Care and Education Access (ECCE) with the objectives (1) to provide access to ECCE provision for 0 – 5 year old children, prioritizing ethnic minorities and disadvantaged children; and (2) to ensure that all children complete one-year of quality pre-school education as preparation for primary school.

Target Group 2: Primary Education with the objectives (1) to provide access to affordable and quality education for all children, especially for ethnic minority, disadvantaged groups and for girls; and (2) to ensure all children complete the full cycle of five grades of primary education.

Target Group 3: Lower Secondary Education with the objectives (1) to extend access to affordable and quality lower secondary education to all children, especially ethnic minority, disadvantaged groups and girls; and (2) to ensure that all children complete the full circle of four grades of lower secondary education.

Target Group 4: Non-formal education (NFE) with the objectives (1) to ensure that all out-of-school youth (in primary and secondary school age) have education opportunities to achieve; and (2) to ensure that all adults, especially women and disadvantaged groups have access to free and quality literacy and post literacy programs and to affordable and quality life skills programs lifelong learning opportunities.

WB showed a strong support for Vietnam's EFA goals by a financing project called "The Targeted Budget Support for National Education for All Plan Program Project". This project provided targeted budgetary support for selected subcomponents of the Educational National Targeted Program (NTP), designed to enhance the quality of basic education, and strengthened the administration of the Education National Targeted Program.

⁶⁸ National Education for All (EFA) – Action Plan 2003 – 2015, available at <http://unesdoc.unesco.org/images/0015/001555/155533e.pdf>

⁶⁹ National Education for All (EFA) – Action Plan 2003 – 2015, available at <http://unesdoc.unesco.org/images/0015/001555/155533e.pdf>

More specifically, the project supported the Government of Vietnam to make progress towards the improvement of education service delivery through the implementation of minimum quality standards, known as Fundamental School Quality Levels (FQSL) in the primary subsector. During the life of the project, the share of schools achieving these minimum education quality inputs would increase. In addition, the project also promoted an overarching policy framework in education finance, planning and governance that will act as an enabling environment for improved service delivery⁷⁰. The project is briefed as follows:

Source:	(\$m.)
BORROWER/RECIPIENT	315.0
INTERNATIONAL DEVELOPMENT ASSOCIATION	50.00
BILATERAL SOURCES: Belgium, CIDA, DFID and European Commission	85.00
Total	450.00
Approval date	28 June 2005
Closing	30 June 2009

Because "Education for All" is especially important in human development, the Vietnamese Government and people have been heavily investing staff resources, financial resources and intellectual endeavor in every component of "Education for All". In Vietnam the budget for Primary Education represents approximately one third of the national budget for education and training over the last 10 years. Furthermore, the fund for primary education contributed by the society in general and by individuals is approximately equal to the national budget destined for the primary cycle. The

⁷⁰ Support for National Education-for-All Plan Implementation Program, available at <http://web.worldbank.org/external/projects/main?pagePK=64283627&piPK=73230&theSitePK=40941&menuPK=228424&Projectid=P085260>

Vietnamese Government planned to increase the budget for education and training from 15% of the overall national budget in 2000 to 18% in 2005 and above 20% in 2010, Vietnam has basically completed primary education universalization for children aged 6 - 14 by 2000. During the next decade, in conjunction with consolidation of anti-illiteracy, the universalization of primary education will be enhanced to ensure that 99% of children of the schooling age range (6 -11 years old) will be encouraged to attend schools. The Vietnamese Government is fully committed to implement the universalization of secondary education, raising the number of students in the age range of this cycle from 74% in 2000 to 80% in 2005 and 90% in 2010⁷¹.

4.5.3 Health Development

Vietnam has achieved levels in basic health indicators that are remarkably better than other developing countries with similar or even higher per capita incomes. Much of this achievement has been the result of widespread practices of promoting social solidarity and a relatively egalitarian distribution of wealth and income. Another factor that has contributed to good levels of health status by such a poor country is a health system that has wide population coverage with many modern and cost-effective disease control interventions and primary health care services delivered through an extensive grassroots health services network. Public investments and recurrent budget support for the grassroots health network are being given priority attention. These efforts are expected to yield gains in terms of further reductions in morbidity and mortality from preventable causes through more effective disease prevention, health promotion, and appropriate early treatment at the household, village, commune and district levels. Even as large health gains are expected from anticipated improvements in community health,

⁷¹ Education for all for learning to live together: Development and Equity, available at <http://www.ibe.unesco.org/International/ICE/ministers/Vietnam.pdf>

large numbers of sick patients still require higher level clinical care for which public hospitals remains the almost exclusive provider⁷².

Vietnam has its own National Health Plan supported by WB as shown in the project “ National Health Support”, approved on 16 Jan 1996 and closed on 31 March 2005, with the following details:

The National Health Support Project's overall objective was to improve the health status of the rural population of Viet Nam in the poorer areas of the country. Specifically, it aimed to (a) provide high quality, reliable primary health care on a sustainable basis in sixteen of the poorer provinces; (b) reduce nationwide mortality and morbidity due to malaria, tuberculosis and acute respiratory infections, as well as the adverse socio-economic impacts associated with these diseases; and (c) strengthen the capacity of the Ministry of Health (MOH) in policy-formulation, planning and management. To achieve these objectives, the project consisted of the following components: service delivery in the areas of infectious and communicable diseases; maternal and child health care; family planning; reproductive health services; and other basic health care; national program assistance for the Malaria, Tuberculosis and Acute Respiratory Infection Programs including provision of drugs, insecticides, transport, equipment and technical assistance;

⁷² Health, Nutrition & Population in Vietnam – Country Overview, available at <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/EASTASIAPACIFICEXT/VIETNAMEXTN/0,,contentMDK:20367510~pagePK:141137~piPK:141127~theSitePK:387565~isCURL:Y,00.html#Overview>

and strengthening institutional health planning and management⁷³. The key components of the project and indicative costs were as follows⁷⁴:

Component 1: Assistance to Commune and District Health Centers (US\$60.1 million equivalent to SDR 40.4 million estimated base cost, of which US\$52 million or SDR 35 million was spent).

This component aimed to improve essential public health services at the primary Commune Health Centers (CHCs) and first-referral level at District Health Centers (DHCs) facilities in 15 provinces selected according to specific criteria outlined in the Staff Appraisal Report (SAR). The subcomponents were: (1) A package of civil works to upgrade or build new health facilities to meet certain minimum standards for service delivery; (2) Provision of essential drugs, basic equipment and supplies to the CHCs and DHCs; and (3) In-service training of health personnel to build capacity.

Outcome: (1) the project improved the quality of available primary health care services within the specific provinces in the country; (2) the project through its well-targeted focus on poor areas of the country improved the quality of health infrastructure available in some of the poorest areas of the country thus creating a more equitable coverage of quality primary health care.

Component 2: Assistance to Three National Priority Programs (US\$51.4 million equivalent estimated base cost, of which US\$39.8 million was spent).

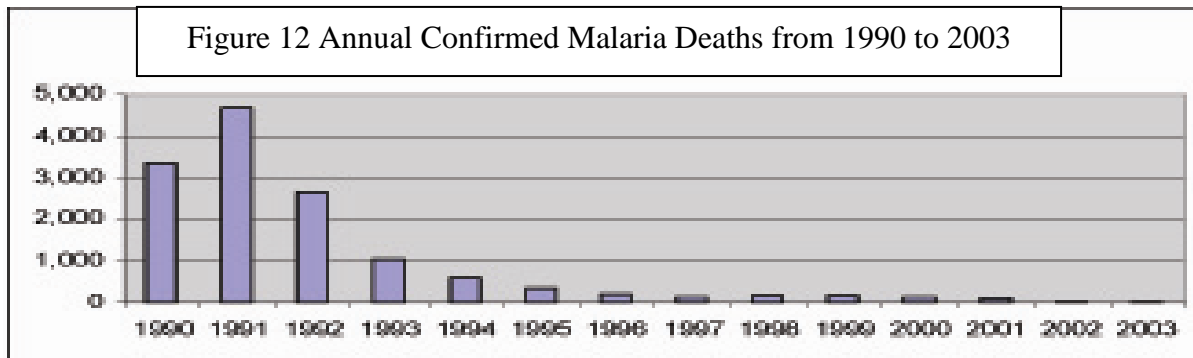
This component aimed to support three already established national health programs for malaria, tuberculosis, and Acute Respiratory Infections (ARI) respectively. (1) The National Malarial Control Program subcomponent aimed at protecting populations at risk of malaria through locally effective anti-vector measures, improved program management and epidemiological services. The project financed inputs such as insecticides, equipment, transportation, training, and technical assistance. (2) The National Tuberculosis Program aimed at reducing the TB incidence within the general population as well as curing infected patients, through the attainment of a case finding rate of 70% of new infectious patients and cure rate of 85% of all patients enrolled in treatment. The project provided drugs, equipment, transportation, training and operations support. (3) The ARI Program aimed to extend coverage of ARI treatments services to 100 percent of children under-five years of age by the year 1999 through the provision of

⁷³ Health, Nutrition & Population in Vietnam – Country Overview, available at <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/EASTASIAPACIFICEXT/VIETNAMEX TN/0,,contentMDK:20367510~pagePK:141137~piPK:141127~theSitePK:387565~isCURL:Y,00.html#Overview>

⁷⁴ National Health Support Project, available at http://www-wds.worldbank.org/external/default/main?pagePK=64193027&piPK=64187937&theSitePK=523679&menuPK=64187510&searchMenuPK=64187283&siteName=WDS&entityID=000020439_20070927164043

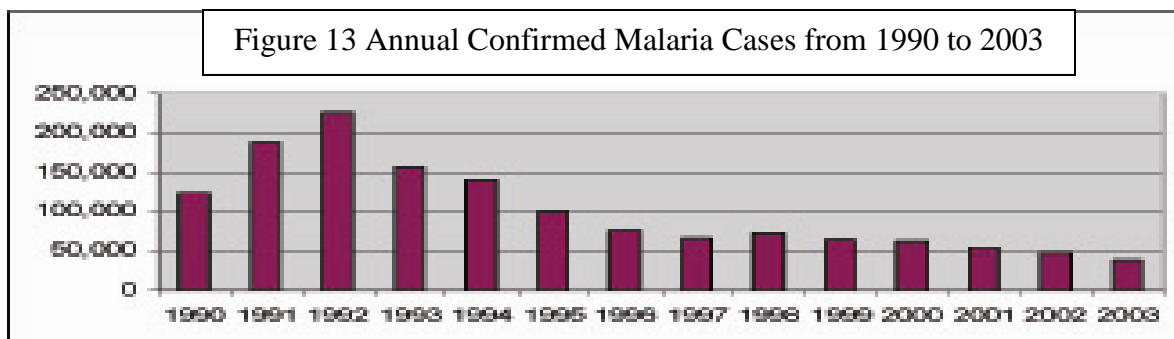
inputs such as the training of workers, financing of drug treatment costs, and the large scale implementation of a case management approach.

Outcome: The objective of component 2 to reduce mortality and morbidity due to malaria, tuberculosis were not only met, but surpassed. Case fatality rate per 100,000 for malaria declined from 0.24 (1997) to 0.09 (2002); the prevalence rate per 1000 has also declined. The total annual number of deaths due to malaria declined from 203 in 1996 to 46 in 2003.



Source: National Health Support Project by the World Bank

In addition, the number of confirmed cases of malaria declined from 76,356 in 1996 to 37,416 in 2003.



Source: National Health Support Project by the World Bank

Component 3: Strengthening Institutional Health Planning and Management in the Ministry of Health (US\$4.7 million equivalent estimated base cost, of which everything was spent including an additional US\$0.8 million, resulting in a total of about US\$5.5 million).

This component aimed to improve the beneficial impact of policies affecting the health sector by enhancing the capacity of the MOH to use several health sector planning and management tools. The subcomponents included: (1) Improving the planning and management of public expenditures for health by (a) Improving the budgeting, accounting, and operational reporting systems of the central MOH hospitals and institutes, provincial health departments, and the central MOH; and (b) Preparing a public investment plan for the health sector; (2) Assisting the government in better mobilizing private financing for health by improving the system of setting, charging and collecting prices for publicly provided health services to better protect the poor and increase revenues available to enhance the quality and quantity of these services; and preparing proposals for further expanding private production of health services; (3) Generating population-based household data and analysis for health sector planning.

Outcome: The staff in the MOH have benefited from these activities and their level of skills have been enhanced to use these policy tools, however, the project did not focus on structural constraints to policy making and capacity building.

Generally, Vietnam has achieved the majority of human development goals as set and illustrated in the sector of poverty reduction, education improvement and health improvement as above. Nowadays, the most ambitious attempt to analyze the comparative status of socioeconomic development in both developing and developed countries has been undertaken by UNDP in its annual series of Human Development Reports. The centerpiece of these reports, which were initiated in 1990, is the construction and refinement of the Human Development Index (HDI). This HDI attempts to rank all countries on a scale of 0 (lowest human development) to 1 (highest human development) based on the three goals or end products of development: longevity as measured by life expectancy at birth, knowledge as measured by a weighted average of adult literacy (two-thirds) and mean years of schooling(one-third), and standard of living as measured by real per capita income adjusted for the differing purchasing power parity of each country's currency to reflect cost of living and for the assumption of diminishing marginal utility of income. Using these three measures of development and applying a

formula to data for 177 countries, the HDI ranks all countries into three groups: low human development (0.0 to 0.499), medium human development (0.50 to 0.799), and high human development (0.80 to 1.0)⁷⁵. By these measures, The HDI for Viet Nam was 0.733, which gave the country a rank of 105th out of 177 countries with data in 2005 as below:

Table 10 Vietnam's human development index 2005				
HDI value	Life expectancy at birth (years)	Adult literacy rate (% ages 15 and older)	Combined primary, secondary and tertiary gross enrolment ratio (%)	GDP per capita (PPP US\$)
1. Iceland (0.968)	1. Japan (82.3)	1. Georgia (100.0)	1. Australia (113.0)	1. Luxembourg (60,228)
103. El Salvador (0.735)	54. Antigua and Barbuda (73.9)	55. Sri Lanka (90.7)	119. Syrian Arab Republic (64.8)	120. Lesotho (3,335)
105. Viet Nam (0.733)	56. Viet Nam (73.7)	57. Viet Nam (90.3)	121. Viet Nam (63.9)	122. Viet Nam (3,071)
106. Occupied Palestinian Territories (0.731)	57. Malaysia (73.7)	58. Myanmar (89.9)	122. India (63.8)	123. Bolivia (2,819)
107. Indonesia (0.728)	58. Syrian Arab Republic (73.6)	59. Suriname (89.6)	123. Vanuatu (63.4)	124. Cambodia (2,727)

Source: The Human Development Index – UNDP

The HDI measures the average progress of a country in human development. The Human Poverty Index for developing countries (HPI-1) focuses on the proportion of people below a threshold level in the same dimensions of human development as the human development index - living a long and healthy life, having access to education,

⁷⁵ Michael P.Todaro and Stephen C. Smith, *Economic Development – Ninth Edition*, Pearson Addison Wesley, 2006, p.59

and a decent standard of living. By looking beyond income deprivation, the HPI-1 represents a multi-dimensional alternative to the \$1 a day (PPP US\$) poverty measure⁷⁶.

The HPI-1 value of 15.2 for Viet Nam, ranks 36th among 108 developing countries for which the index has been calculated. The HPI-1 measures severe deprivation in health by the proportion of people who are not expected to survive age 40. Education is measured by the adult illiteracy rate. And a decent standard of living is measured by the unweighted average of people without access to an improved water source and the proportion of children under age 5 who are underweight for their age. Table 11 shows the values for these variables for Viet Nam and compares them to other countries⁷⁷.

Table 11: Selected indicators of human poverty for Vietnam				
Human Poverty Index (HPI-1) 2004	Probability of not surviving past age 40 (%) 2004	Adult illiteracy rate (%ages 15 and older) 2004	People without access to an improved water source (%)2004	Children underweight for age (% ages 0-5) 2004
1. Barbados (3.0)	1. Iceland (1.4)	1. Estonia (0.2)	1. Thailand (1)	1. Czech Republic (1)
34. Jamaica (14.3)	74. Belarus (6.7)	80. Sri Lanka (9.3)	53. Bolivia (15)	105. Djibouti (27)
36. Viet Nam (15.2)	76. Viet Nam (6.7)	82. Viet Nam (9.7)	55. Viet Nam (15)	107. Viet Nam (27)
37. Philippines (15.3)	77. China (6.8)	83. Myanmar (10.1)	56. Philippines (15)	108. Philippines (28)
108. Chad	173. Zimbabwe	164. Burkina	125. Ethiopia (78)	134. Bangladesh

⁷⁶ Vietnam – The Human Development Index : Going Beyond Income, available at http://hdrstats.undp.org/countries/country_fact_sheets/cty_fs_VNM.html

⁷⁷ Vietnam – The Human Development Index : Going Beyond Income, available at http://hdrstats.undp.org/countries/country_fact_sheets/cty_fs_VNM.html

(56.9)	(57.4)	Faso (76.4)		(48)
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Source: Human Development Index – UNDP

It can be concluded that Vietnam is one of the fastest growing economies in the world. It is going through a far-reaching transformation from an inward-looking planned economy to one that is globalized and market based. It has the potential to be one of the great success stories in human development.

4.6. Analysis of the policy implementation of Vietnam

The adoption of a macroeconomic policy can be considered the dominant factor for economic development of Vietnam. For an economy to develop, it requires policy makers to select an economic theory/model applicable, practical, and feasible to implement for the long run. In this regard, the Sixth Congress of the Vietnamese Communist Party (December 1986) marked a turning point of great significance to transform the Vietnamese economy to an open, market-oriented, and globally integrated model with a view to enacting policies for the integration of Vietnam into the world and regional economies as discussed earlier. This model of development is well-suited to Vietnam with its political and economic characteristics as a communist country.

The process of implementing the above policy has been handled thoroughly by the communist leadership of Vietnam. Vietnam has been examining closely both internal and external environments to make timely and appropriate decisions regardless of any periods the country endured hardship or has been taking off. For example, while Vietnam was dealing with the China “factor” as indicated earlier in this the thesis, particularly in differing Sino-Vietnamese positions in Kampuchea, and their mutual border, it was seeking to capitalize on Soviet ties to fully protect itself from the Chinese

hostility and international isolation. After a long period of time under Soviet protection, i.e. being dependent on Soviet, Vietnam found its way out from this dependence by joining the world. Since Vietnam started to engage the world, it has also been very prudent to join regional and global cooperation on a step-by-step basis, i.e. one organization after another, the participation of the former supports the participation of the latter.

Chapter 5 - Challenges

While Vietnam has been scoring a number of significant economic and human achievements as shown above, it has also been facing some challenges.

- The most noteworthy challenge would be a potential showdown in foreign direct investment inflows as a result of the global financial crisis.

- Vietnam is in pursuit of privatization. As advised by the Party's ideology, however, the state-owned enterprises should remain dominant in the whole economy system. It likely hinders a full market-based economy expected by foreign businesspeople and investors. The ninth national congress of the Vietnam Communist Party, which met in April 2001, endorsed a five-year program of SOE reform. This program has moved in fits and starts; by the end of this period, 3,349 SOEs were restructured of which 2,188 were equitized. The state retains full ownership of 1,800 SOEs, including newly formed large-scale conglomerates in posts and telecommunications, coal, oil and gas, electricity, shipbuilding, cement, and textile and garments. The state sector is also privileged over the private sector in terms of preferential bank credit, tax breaks, state contracts, access to land, and government services. The state sector is also indebted. State commercial banks continue to pour credit into industries that are most at risk from ASEAN competitors⁷⁸.

- The wave of industrialization in the form of foreign direct investment projects has been converted agricultural land into industrial parks. This reduces the livelihood of farmers. This also leads to a new form of poverty suffered by landless farmers regardless

⁷⁸ Edited by Stephanie Balme and Mark Sidel, *Vietnam's New Order – International Perspectives on the State and Reform in Vietnam*, Palgrave Macmillan 2007, p.44.

of a considerable compensation paid by the government and foreign investors to them for their land conversion. This could also reduce the Vietnamese volume of rice export to the world market.

- Like any other countries on the development path, the environment of Vietnam has been challenged by the process of development in the forms of trade liberalization and foreign direct investment, especially in the area of exploring and exploiting metal deposit. This challenge to combine environmental protection and sustainable economic development is of vital importance to the Vietnamese government and the international community.

Chapter 6 - Conclusion

From a dependent country facing famine and a failing centrally-planned economy by mid 1980's, Vietnam has emerged as one of the fastest growing economies in the world. Real GDP has grown on average at the rate of 7.3 percent per year during 1995 – 2005.

Compared to U.S. dollars, income per capita rose from US\$ 260 in 1995 to a 2007 level of US\$ 835. By WB estimation, Vietnam would enter the ranks of middle income countries by surpassing US\$1,000 per capita next year (2010). Vietnam has been able to reach most of the Millennium Development Goals. The following factors have lead to Vietnam's economic and human achievements:

1) Vietnam did a significant move in adopting an appropriate and timely decision in foreign policy directions to graduate from dependence on the former U.S.S.R and to engage in the world as seen from the Sixth Congress of the Vietnamese Communist Party in December 1986. Relations with major powers and neighboring countries were put on the Vietnamese's top foreign policy agenda.

2) Vietnam implemented the process of integrating the global economy very prudently at different levels for economic development. First, Vietnam unilaterally implemented its economic reforms by encouraging foreign direct investment, expanding more trading markets, and privatization. Second, Vietnam joined the sub-regional level of South East Asia Nation via ASEAN in 1995. As an ASEAN member, Vietnam was admitted to ASEAN Free Trade Agreement, AFTA, in December 1995. Under AFTA, the

member countries are bound by CEPT mechanism to cut tariffs as mentioned earlier. Third, Vietnam joined the supra-regional level of Asia-Pacific via APEC. The major goal of APEC is to develop the Asia-Pacific region into an area of free trade and investment. Fourth, Vietnam finally gained WTO membership in 1995. By partaking in these regional and global economic institutions, Vietnam has been gainful from foreign direct investment and trade liberalization; and

3) Vietnam has been working closely with IMF, WB, and UNDP for human development within the framework of the MDGs. In the case of Vietnam, economic development and human development are closely connected.

The model development of Vietnam as concluded above can be used as a success story which would be adopted by other less developed countries, especially the remaining communist countries like Cuba and North Korea. Vietnam's development experience has shown to the world that an appropriate foreign policy can make a break through into international isolation.

Economic development can be achieved through foreign direct investment, trade globalization, and privatization by international economic integration. Human development can be achieved by reaching the MDGs and national plans in education and health with strong supports of international multilateral development agencies like IMF, WB, and UNDP and comprehensive national policy programs in socio-economic development.

Chapter 7 - Recommendations

This study finally has the following recommendations for further economic development and human development of Vietnam.

- Vietnam should expand investment in the labor-intensive light industries (textile, clothing, footwear) and some services (tourism) for these sectors to grow and to be able to absorb the redundant labor force.

- Vietnam should have a long-term policy to invest in modern technology and infrastructure to create a competitive environment for FDI because China and other ASEAN countries are Vietnam's main competitors for FDI.

- Vietnam should establish an integrated approach of foreign direct investment incentives to harmonize the entire investment climate in Vietnam.

- Vietnam should build incentive mechanisms to attract self-financed Vietnamese overseas students to return to Vietnam in order to contribute to economic development and human development of the country.

- Vietnam should develop a long term plan for achieving economic and human development in an environmentally sustainable way.

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